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ORGANIZATION OF FINANCING AND CREDITING IN CAPITAL INVESTMENT

Symposium of Authors under the Direction

of Professor N. N. Rovinskiy

Approved by the Minister of Higher Education of the

USSR as a Teaching Aid For Financial-Economic

Institutes and Departments

Gosfinizdat, Moscow, 1951,

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FOREWORD

The Soviet people, led by the great party of Lenin-Stalin, has successfully completed the Postwar Five-Year Plan. The chief tasks of the Five-Year Plan -- restoring the nation's war-damaged areas, regaining the prewar level of industry and agriculture and then surpassing that level by a considerable margin -- have been successfully fulfilled.

The rapid rates of growth of industrial production and all branches of the national economy have been achieved by a grandiose program of capital construction. In four years and ten months of the Postwar Five-Year Plan, about 6,000 industrial enterprises were reconstructed or newly built, not counting small state-owned and cooperative enterprises. The economies of the areas that suffered from the war have not only been restored, but have also been greatly expanded and new and more modern technology introduced.

In advancing toward communism, the Soviet people, under the leadership of the great Stalin, are working with great enthusiasm for the continued expansion of the national economy and improved technical outfitting of all branches of the economy. A clear indication of this is the beginning of construction, pursuant to the Government's decision on the Kuybyshev and Stalingrad hydroelectric stations on the Volga, the Main Turkmen Canal from the Amu-Dar'ya to Krasnovodsk, the Kakhovka hydroelectric station on the Dnepr, and the South Ukrainian and North Crimean canals. In scope, technical design, and the speed of construction, these are true projects of communism. The construction of such facilities is possible only in the Soviet Union -- a country advancing toward communism.

The grandiose scale of capital construction in the USSR is expanding from year to year. In this connection, questions relating to further improvement of the organization of construction and the reduction of costs are becoming important state matters.

A key role in the reduction of construction costs and the achievement of speedier construction rates and greater efficiency is played by the proper and most rational organization of the financing of capital investments and further improvement of the operation of the long-term investment banks.

The present textbook discusses the existing system of financing and crediting capital investments and the financial and economic operational methods of the long-term investment banks.

This teaching aid has been compiled in accordance with the syllabus approved for the course on Organization of Financing and Crediting in Capital Investment.

In compiling the textbook, the authors took account of the fact that the course on Organization of Financing and Crediting in Capital Investment is open only to students who have taken the prerequisite courses on Finance in the USSR and Money and Credit in the USSR, which

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discuss finance and credit in the USSR and the theoretic bases of the Soviet financial and credit system.

The book does not offer an exhaustive treatment of questions relating to advance planning, making cost estimates, organization and planning construction, operational and accounting techniques in long-term investment banks, and analysis of the operations of construction organizations, since these questions are taken up in other courses.

The book has been written on the basis of legislation in effect as of 1 November 1950.

The members of the symposium who wrote the textbook under the direction of Professor N. N. Rovinskiy are: I. D. Sher, S. I. Nedelin, V. F. Girovskiy, P. M. Yakushev, and Ye. G. Tul'chinskiy.

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CHAPTER I

CAPITAL INVESTMENT AND THE FIXED CAPITAL OF THE NATIONAL ECONOMY OF THE USSR

1. General Characteristics of Capital Investment in the Economy of the USSR

The means of production include independently of the social conditions under which labor is performed, the tools of labor (machines, implements, and so forth) and the objects of labor (raw materials, supplies, and so forth).

In a capitalist economy the means of production is capital and serves as a means of exploiting the workers. The difference between the tools of labor and the objects of labor is then resolved into a difference between fixed capital and working capital.

The social and economic character of the means of production differs in principle in a Socialist state. As a result of the victorious Great October Socialist Revolution, a new, unprecedented form of social development has been created in the Soviet Union. The economic basis of the Soviet state -- the Socialist economic system and Socialist ownership of the means of production -- has arisen as the result of the liquidation of the capitalist economic system, the elimination of private ownership of the means of production, and the annihilation of exploitation of man by man.

In a Socialist economy, the means of production -- the tools of labor and the objects of labor -- are neither capital nor private property; they are state (people's) property or cooperative and collective farm property and serve as a means for the further expansion of Socialist production, raising the material and cultural living standards of the working people, and strengthening the independence and defensive capacity of the country.

The tools and objects of labor in a Socialist economy function as fixed and working capital and are the component parts of the social production capital.

At the end of the Second Five-Year Plan, the share of the Socialist sector in the USSR's production capital was 98.7 percent, of which 90 percent was state (people's) property and 8.7 percent cooperative and collective farm property. Individual collective farmers owned 1.1 percent and private farmers and artisans owned only 0.2 percent of the total production capital of the USSR.

The difference between fixed capital and working capital lies in their differing functions in the production process, in the way in which their value is transmitted to the final product. Working capital (raw materials, supplies, fuel, and so forth) is used up in its entirety in the production process and transmits all its value to the finished product. Fixed capital (machines, implements, and so forth) retains its natural form in the course of the production process and transmits

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its value to the finished product not in its entirety, but gradually in the form of depreciation.

This essential difference between the respective functions of fixed and working capital in the production process also determines the character of their reproduction. While working capital is regularly reproduced in its entirety within relatively short periods, fixed capital is replaced in its entirety only after a lengthy period in the course of which individual parts of machines and implements may first be replaced.

Working capital (raw materials, auxiliary supplies, and so forth) in the course of a complete cycle is made up entirely of materials in kind and passes not only through the production phase (at first in the form of production reserves and later directly in the production process) but also through the circulation phase (in the form of goods and money). The funds of the enterprise that correspond to the value of the circulating working capital and the capital in circulation are called working capital.

Funds allocated for the creation of fixed capital are spent at once and in their entirety and are replaced gradually in the course of the extended period during which the fixed capital participates in the production process. Fixed capital participates in kind and in its entirety in each cycle, but only part of its value enters into the value of the finished product. This part of the value of fixed capital, when converted into money, makes up the so-called amortization fund, which after a more or less lengthy period of service is used to make up depreciation of the fixed capital. Funds allocated for the creation of fixed capital, the fixed funds, function in the course of a lengthy period until the time when the fixed capital must be replaced in kind.

K. Marx, in defining the difference between fixed and working capital in the capitalist economy, said: "It is this expenditure, all at one time, and the only partial reproduction in kind that distinguishes fixed capital from working capital" (K. Marx, Kapital, Vol II, 1949, page 167).

A major characteristic of fixed capital in the national economy of the USSR is that its predominant share, the people's property controlled by the state, does not enter into circulation and is not an object of purchase and sale (State enterprises, buildings, and installations may not be sold or purchased for money by the state organs. State enterprises, buildings, and installations may be transferred only with Government approval, free of charge, by transferring the value of the property from the balance sheet of one agency to that of another.)

Simple reproduction consists of the constant renewal of production capital at its previous level. Simple reproduction is effected by amortization, i.e. the value of depreciation of fixed capital is carried over to the finished product and is taken into account in the calculation of the cost of the finished product.

Socialist economics, however, is characterized by continuous, systematic, expanding Socialist reproduction of fixed capital, part of

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which is simple reproduction. The amount of investment in the fixed capital of the national economy exceeds by many times the amortization deductions. For example, during the First Five-Year Plan, total amortization in the industry of the USSR made up only 14 percent of all investment in fixed capital and during the Second Five-Year Plan 18.1 percent.

As we have said above, the nature of the outlays for the expanding reproduction of fixed capital in the national economy differs substantially from that of funds allocated for the reproduction of working capital. These features of planned Socialist economy require the separate planning of funds allotted for the expanding reproduction of fixed and working capital and requires separate accounting of these funds and different methods of financing and financial control.

Outlays for the expanding reproduction of fixed capital in the USSR are called capital investments.

Capital investments in the USSR are directed chiefly into new construction and the reconstruction of existing enterprises. During the Great Patriotic War, and particularly during the Postwar Five-Year Plan, a major share was allotted to reconstruction work in areas that had been temporarily occupied (this work consumed 46 percent of all the centralized capital investments of the First Postwar Five-Year Plan).

Fixed capital in the USSR includes productive capital (production buildings, installations, machines, and so forth) and nonproductive capital (residential housing, schools, hospitals, administrative buildings, and so forth). Capital investment in the USSR thus includes the sum total of outlays relating to the creation of new fixed capital and the reconstruction and rehabilitation of existing fixed capital, both productive and nonproductive.

The classification now in force does not include outlays for capital repairs of fixed capital in planned capital investment. Capital repairs are covered by special funds derived from the amortization deductions and capital-repair outlays are thus provided in addition to (outside of) the capital investment plan.

Fixed capital does not include objects of low value and rapid depreciation worth less than 200 rubles or tools of labor that serve less than one year irrespective of the value of each unit.

In the capitalist economy the expansion of fixed capital is related to the irregular and cyclic character of development. "Although periods of capital accumulation vary greatly and by no means coincide with one another, a crisis is nevertheless always the initial point for new capital investment. Consequently, if we take society as a whole, then a crisis creates to a greater or lesser extent the material basis for the following cycle" (K. Marx, Kapital, Vol II, 1949, page 182).

In the capitalist economy, the volume and direction of capital investment are determined in the interests of the capitalists in a haphazard fashion according to the law of the average rate of profit.

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In the Socialist economy the volume and direction of capital investment are fixed in a planned manner by the state; the capital investment plan is an organic component part of the entire national economic plan.

Comrade Stalin in his conversation with British writer Wells (in 1934) said that in the USSR a planned economy presupposes emphasis on the output of those branches of industry that are especially needed by the masses of the people, while under capitalism "capital tends to be invested in those branches of the economy that offer the greatest rate of profit. You will never find a capitalist who agrees to take a loss and accepts a lower profit rate merely to satisfy the needs of the people. Unless you rid yourself of the capitalists, unless you eliminate the principle of private ownership of the means of production, you will not be able to create a planned economy" (I. Stalin, Voprosy leninizma /Problems of Leninism/, 10th edition, pages 600-601).

Bourgeois economists are now trying to show that the economy can be "planned" in capitalist countries, particularly in the United States, and that the state plays the key role in economic development. What this actually amounts to is that in the capitalist countries the state has always defended the interests of the capitalists, and in the imperialist period, especially during the general capitalist crisis, the state as a whole has been a servant of the monopolistic combinations.

The advantages of the planned nature of capital investment in Socialist society tend to make these highly effective. Moreover, the difference in principle between the direction given capital investment in the USSR and in capitalist countries in turn characterizes the fundamental difference between the methods of determining the effectiveness of these investments.

The basis used for determining the effectiveness of capital investment under capitalism is the volume of profits derived from the capital and the strengthening of the ability to compete.

In the Socialist system the law of the average profit rate is no longer operative and no longer determines the development of individual enterprises or branches of the economy. In our country, the Socialist state is the directing force of the development of the national economy. Under the leadership of the Communist Party, the Soviet state directs capital investments in a manner that corresponds best to the needs of the development of the national economy, strengthens the defensive capacity and independence of the nation, and insures a rise in the material and cultural living standards of the working people.

Under public ownership of the tools and the means of production "the development of production is not subordinated to the principle of competition and the securing of capitalist profits, but to the principle of planned direction and systematically raising the material and cultural living standards of the working people" (I. V. Stalin, Sochineniya /Collected Works/, Vol 12, page 321).

Only on the basis of these instructions from Comrade Stalin can we properly solve the question of the effectiveness of capital investment in a Socialist state.

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The resolutions of the fifteenth congress of the All-Union Communist Party (Bolshevik) said: "The capital construction plan should be based on the plan for the most expedient development of the national economy as a whole, with due account to regional peculiarities; it should also be based on the maximum effectiveness of capital outlays from the point of view of both the construction target date and the productive effect of the enterprises under construction" (VKP (b) v rezolyutsiyakh i reshen-iyakh s"yezdov, konferentsiy i plenumov TsK /The All-Union Communist Party (Bolshevik) in the Resolutions and Decisions of Congresses, Conferences, and Plenary Sessions of the Central Committee/, Part II, 1941, page 239). Only such a national economic approach to each specific construction project can insure truly the maximum effectiveness of capital investment in a Socialist economy.

A high effectiveness of capital investment can be insured on the basis of the colossal construction experience in all areas of the economy and culture that we have accumulated in the USSR. The study of this experience and the generalization and application of the economic indexes of the best projects and existing enterprises play a key role in the selection of given construction alternatives.

This factor was stressed in their appeal to Comrade Stalin by the directors of 88 leading Moscow enterprises, who urged the planning organizations "to take account of the experience accumulated by industry and plan a more rational use of production space" (Pravda, 3 November 1949).

The advantages of the Socialist economic system insure an immeasurably greater efftiveness of the use of fixed capital than is true in the capitalist countries.

The production anarchy and the periodic crises in the capitalist economy result in a chronic under-utilization of the means of production. According to the somewhat understated data of the bourgeois press, more than 40 percent of the fixed capital in the ferrous metallurgy industry of the United States was not being utilized in mid-1949, while more than half the capacity of the machine-tool plants of the United States was idle in early 1949 (see A. Arakelyan, Ispol'zovaniye osnovnykh sredstv promyshlennosti SSSR /Utilization of Fixed Capital in the Industry of the USSR/, Gospolitizdat, 1950, page 22).

At the Eighteenth Party Congress, Comrade Molotov said that the power production capacity of the USSR was being used twice as intensively as in the bourgeois countries.

During the Postwar Five-Year Plan, the utilization of industrial equipment has greatly improved. For example, blast furnaces are being used 25 percent more intensively than before the war, open-hearth furnaces 32 percent more, and so forth.

However, all this does not mean that we have reached the limit of utilization of fixed capital. Data on the fulfillment of the Postwar Five-Year Plan show that there is room for improvement and that increasing use is being made of capacities.

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2. Capital Investment and Fixed Capital of the National Economy of the USSR During the Five-Year Plans

As a result of World War I, followed by the Civil War and foreign intervention, the nation's economy reached a very low level. The output of large-scale industry was only one-seventh of the prewar level, and pig iron output was 3 percent of the prewar level.

Following the end of the Civil War, the economy, thanks to the advantages of the Soviet system, returned to its prewar levels in a very short period (5 to 6 years), and in the course of reconstruction the nation embarked upon the realization of the Leninist plan of electrification (GOELRO).

Comrade Stalin, in his speech to Red-Army Academy graduates in 1935, described the tasks that faced the nation after the restoration of the prewar economic level: "You know that we inherited from the past a technically backward, semi-destitute, ruined country. A nation ruined by four years of imperialist war, ruined again by three years of civil war, a nation with a semi-literate population, a low level of technology, with individual islands of industry in a sea of minute peasant holdings, that is the nation we inherited from the past. We faced the task of shunting this nation from the rails of the Middle Ages and darkness to the rails of modern industry and mechanized agriculture. As you can see, it was a serious and difficult task. The problem we faced was this: either we solved this task in the shortest time and consolidated socialism in our country or we did not solve it and our country -- technologically weak and culturally dark -- lost its independence and became a pawn of the imperialist powers" (I. Stalin, Voprosy leninizma, 11th edition, page 487).

The need for liquidating the age-old backwardness of Russia coincided with the task of building socialism here. The key to the solution of this problem was Socialist industrialization and above all the development of heavy industry.

During the five-year plans, the volume and direction of capital investment in the USSR was guided by the Stalinist policy of industrialization and the collectivization of agriculture.

Comrade Stalin worked out the Soviet method of industrialization, on the basis of which the working people of the Soviet Union under the leadership of the Communist party have turned our Motherland into a leading industrial power. This "jump" was achieved in the shortest possible historical period.

The method of industrialization worked out by Comrade Stalin differs fundamentally from the capitalist method and expresses the inherent advantages of the Soviet economic system. Comrade Stalin has described the difference between the two methods of industrialization as follows:

"What constitutes the essential disadvantage of the capitalist method of industrialization? It is the fact that the capitalist method separates the interests of industrialization from those of the masses of

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the working people, sharpens the internal contradictions within the nation, impoverishes millions of workers and peasants, and uses profits not for improving the material and cultural levels of the broad masses within the country, but for the export of capital and the expansion of bases of capitalist exploitation within and without the country.

"What constitutes the essential advantage of the Socialist method of industrialization? It is the fact that the Socialist method combines the interests of industrialization and the interests of the broad masses of the working people, that it does not lead to the impoverishment of millions of persons but to an improvement in their material position, that it does not lead to a sharpening of internal conflicts, but to their alleviation and elimination; it is the fact that this method steadily expands the domestic market and increases the volume of this market, thus creating a solid domestic base for the development of industrialization" (I. V. Stalin, Sochineniya, Vol 8, page 287).

Industrialization in the USSR has been based on the powerful development of heavy industry, especially its core -- machine building -- while industrialization in capitalist countries begins with the development of light industry. The development of heavy industry has strengthened the defensive capacity and the independence of the nation. "The party knew that war was coming, that it was impossible to defend the country without heavy industry, that the development of heavy industry had to be speeded, and that to lag in this matter meant to lose out. The party remembered Lenin's words on how it was impossible to preserve the independence of a nation without heavy industry and that the Soviet regime would be destroyed without it. Therefore the Communist party of the Soviet Union departed from the 'usual' road of industrialization and began to industrialize the nation through the development of heavy industry. It was a very hard road, but unavoidable" (I. V. Stalin, Rech' na predvybornom sobranii izbirateley Stalinskogo izbiratel'nogo okruga g. Moskvy 9 fevralya 1946 g. /Speech at the Election-Campaign Meeting of the Voters of the Stalin Election District of the City of Moscow on 9 February 1946/, Gospolitizdat, 1946, page 17).

Socialist industrialization involves very rapid rates and a continuous program of industrial construction. The average annual increase in the fixed capital of Socialist large-scale industry during the first two five-year plans (1928-1937) was 22 percent, while in the United States fixed capital increased by only 3.7 percent from 1923 to 1930 and actually declined during the economic crisis of 1929-1933.

The high rates of industrialization and later the collectivization of the country were opposed by traitors of the Motherland, the Bukharinists and the Trotskiyists, who propounded "the theory of the diminishing curve" of capital investments.

Comrade Stalin in his speech to the sixteenth Party Congress fully revealed the reactionary character of these "theories."

The Soviet method of industrialization involves, furthermore, the most rational location of industrial construction projects, an extremely high degree of use of new technology and a high effectiveness of capital

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investments.

In contrast to the capitalist economy, in which industry is located in a haphazard manner, unevenly and in some cases quite irrationally, industrial location in the socialist economy is determined by the plan and rests on the principle of bringing industry closer to sources of raw materials and to consumer areas, the principle of speedier development of formerly backward areas and the principle of the complex development of major economic regions.

In contrast to capitalist industrialization, the industrialization of the USSR is effected on the basis of domestic resources, without enslaving loans and concessions, without military contributions and without colonial plundering.

The industrialization of the Soviet Union has made it possible to transform a small-scale peasant agriculture into the world's largest-scale mechanized Socialist agriculture.

The total volume and direction of capital investments during the first two five-year plans is shown in the following table:

VOLUME OF CAPITAL INVESTMENTS DURING THE FIRST AND SECOND FIVE-YEAR PLANS
(in billions of rubles in current prices)

	First Five-Year Plan	Second Five-Year Plan	
		Including Extra-Limit Capital Outlays and Capital Repairs	Exclusive of Extra-Limit Outlays and Capital Repairs
The Socialist Economy as a Whole	52.5	137.5	114.7
which includes: Industry	24.8	65.8	58.6
which includes: Group A	21.3	54.6	49.8
Agriculture	10.8	16.8	11.3
Transportation	9.8	25.4	20.7

(see Itogi vypolneniya pervogo pyatiletnego plana razvitiya narodnogo khozyaystva Soyuza SSR /Results of the Fulfillment of the First Five-Year Plan of Development of the National Economy of the USSR/, published by Gosplan Soyuza SSR, 1933, page 42, and Itogi vypolneniya vtorogo pyatiletnego plana razvitiya narodnogo khozyaystva Soyuza SSR /Results of the Fulfillment of the Second Five-Year Plan of Development of the National Economy of the USSR/, Gospolitizdat, 1939, page 71).

Capital investments in the construction of social cultural and administrative institutions in the Second Five-Year Plan were 25 billion

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rubles, exclusive of extra-limit outlays and capital repairs 20.8 billion rubles.

The tremendous volume of capital investments, especially during the Second Five-Year Plan, insured high rates of expanding reproduction of fixed capital. In the period 1928-1937, fixed capital in the national economy increased by 3.8 times, while fixed capital in industry alone increased by 6.4 times.

Of special interest is the relationship between the volume of capital investments and the new fixed capital put into operation. Thus, while during the First Five-Year Plan 72 percent of the total capital investments were put into operation, this share rose to 90 percent in the Second Five-Year Plan.

The first two five-year plans also saw a change in the structure of the fixed capital of the national economy of the USSR: the share of the fixed capital in industry and transportation greatly increased, a clear indication of success of the general party line on the nation's industrialization. It should be noted that while the percentage share of housing dropped somewhat in the nation's total fixed capital, it sharply increased in absolute terms.

The building of the foundations of the Socialist economy was completed during the First Five-Year Plan. The Soviet Union had entered the period of socialism, and the once agrarian country was turning into an industrial nation. The share of industrial output rose from 32 percent in 1928 to 70 percent in 1932. More than 1,500 industrial enterprises, more than 200,000 collective farms, 5,000 state farms and about 2,500 machine-tractor stations were completed during the First Five-Year Plan.

From a country that had been weak and unprepared for defense, the Soviet Union had "turned into a powerful nation in the sense of being prepared for defense, a nation ready for all eventualities, a nation capable of large-scale production of all modern means of defense and able to equip its army in case of attack from abroad" (I. Stalin, Voprosy leninizma, 11th edition, page 375).

The reconstruction of industry and agriculture on the basis of the new, modern technology was completed during the Second Five-Year Plan and the rests of the exploiting classes were completely eliminated. Socialist industry made up 99.97 percent of the nation's total industrial output. Completed during this period were 4,500 industrial enterprises, the number of machine-tractor stations rose from 2,500 to 6,000, the number of tractors in agriculture in 1938 rose to 483,500, and that of harvester combines to 153,500. In terms of industrial output, the Soviet Union had become Europe's leading country.

As a result of the victories of socialism in all branches of the economy following the successful completion of the Second Five-Year Plan, our country entered a new stage of development, "the stage of completing the building of a classless Socialist society and the gradual transition from socialism to communism..." (Rezolyutsii XVIII s"yezda VKP (b)

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/Resolutions of the Eighteenth Congress of the All-Union Communist Party (Bolshevik)/, Gospolitizdat, 1939, page 11).

The sustained victories made it possible to confront the Soviet people with a new task -- to catch up with and then surpass the capitalist countries in the economic sense, i.e., in terms of industrial output per capita. "Only when we surpass the economically leading capitalist countries, can we regard our country as fully saturated with consumer goods, only then will we have an abundance of products and be able to pass from the first phase of communism to the second phase.

"What must we do to surpass the economically leading capitalist countries? We must, first of all, have a serious and unbending desire to move ahead and be prepared to make sacrifices, to make major capital investments for the expansion of our Socialist industry" (I. Stalin, Voprosy leninizma, 11th edition, pages 578-579).

These instructions of Comrade Stalin formed the basis of the Third Five-Year Plan, which envisaged a volume of capital investments in the economy of 192 billion rubles.

During the three and a half years of the Third Five-Year Plan (1938-1941), total capital investments amounted to 130 billion rubles. During this time about 3,000 state enterprises were put into operation, i.e., almost twice as many as during the entire First Five-Year Plan.

As a result of the tremendous capital investments, the fixed capital of the national economy rose by five times in the period 1928-1940 (it rose by eight times in industry alone) and state-owned housing doubled.

The realization of the Leninist-Stalinist nationalities policy and the direction of huge capital investments into the economy and culture of the national republics and oblasts not only ended the former economic and cultural backwardness of these areas, but produced a sharp rise in the level of their economy, culture and arts.

The fulfillment of the program of the three Stalinist five-year plans also created the necessary material base for the victorious completion of the war that had been started by Fascist Germany.

Speaking to the voters of the Stalin Election District of Moscow on 9 February 1946, Comrade Stalin said that by 1940 the production of pig iron had increased by almost four times compared with 1913, steel by 4.5 times, coal by 5.5 times, oil by 3.5 times, raw cotton by 3.5 times and the output of commercial grain had reached 38.3 million tons in 1940, or 17 million tons more than in 1913.

The successes achieved by the Socialist state under conditions of a savage struggle against the enemies of the people -- the Trotskiyists and rightist would-be restorers of capitalism -- were the result of the wise policy of our party.

"The party has repeatedly been subjected to sharp criticism and

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attacks for its construction program. The fight regarding the scope and character of construction has always been deeply political in nature" (V. M. Molotov, O stroitel'stve i zadachakh stroiteley /On Construction and the Tasks of the Builders/, Partizdat, 1935, page 27).

Of the greatest importance in the matter of insuring high rates of industrialization was the defeat by the party under the leadership of Comrade Stalin of the Trotskiyists, Zinov'yevists and rightist would-be restorers of capitalism, including former leading officials of the People's Commissariat of Finance of the USSR, who strove to disrupt the industrialization program by greatly reducing appropriations for industrial construction and to retard the development of state and collective farms.

3. Capital Investments and Fixed Capital of the National Economy of the USSR during the Great Patriotic War

The tremendous advantages of the Soviet socialized and state regime also became evident during the Great Patriotic War -- the hardest and most devastating our Motherland has ever known -- when the nation's economy continued to grow in accordance with the law of expanding Socialist reproduction. During the four war years, capital investments were 94.6 billion rubles, or more than 81.5 percent above the capital investments of the First Five-Year Plan (see K. N. Plotnikov, Byudzhet sotsialisticheskogo gosudarstva /The Budget of the Socialist State/, Gosfinizdat, 1948, page 304).

At the start of the war more than 1,300 industrial enterprises were evacuated to the eastern part of the country. In addition to the capital work involved in reactivating the enterprises evacuated to the eastern parts of the country, wartime construction also included the building of a large number of new enterprises and other projects for residential and cultural-social purposes.

Of the greatest significance in the rapid increase of production capacity was the extensive use of rapid construction methods and the use of a number of measures made necessary by wartime conditions.

The rapid rate at which fixed capital was put into operation is shown by the following examples.

Each of the blast furnaces at one of the metallurgical plants was built within 7-8 months during the war, while before the war the construction of similar blast furnaces required 2.5 years.

At one of the thermal electric stations before the war the first boiler was mounted in 480 days, while during the war the second boiler was mounted in 120 days, the third in 86 days, the fourth in 76 days and the fifth in 35 days.

In spite of the great losses suffered during the war, the tremendous capital investments made during this period insured the expanding reproduction of the nation's fixed capital, especially in the east.

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Starting in 1943, simultaneously with the construction of new enterprises and residential dwellings, began in accordance with the historic decree of the Council of Ministers USSR and the Central Committee of the All-Union Communist Party (Bolshevik) of 21 August 1943 "On the Immediate Measures for the Restoration of the Economy in Areas Freed from the German Occupation" (Izvestiya, 22 August 1943), the extensive work of restoring the economy of these areas. Alone during the war capital investments for this purpose were 75 billion rubles, an amount that made it possible to rebuild about 30 percent of all fixed capital in formerly occupied territory.

But restoration work and new construction did not reach their fullest extent until after the end of the war, when our Motherland embarked upon the First Postwar Five-Year Plan.

4. Capital Investments and Fixed Capital of the National Economy of the USSR during the First Postwar Five-Year Plan

Aroused by the victorious completion of the war, our nation, led by the great party of Lenin-Stalin, is carrying out with enthusiasm the magnificent task of building a Communist society.

In 1946, Comrade Stalin set the following specific tasks for the next three five-year plans: to triple industrial output compared with the prewar level and achieve an annual output of 50 million tons of pig iron, 60 million tons of steel, 500 million tons of coal, and 60 million tons of oil. The First Postwar Five-Year Plan of reconstruction and development of the national economy was to be a major step ahead toward these great goals.

The task of the Postwar Plan consisted in healing as rapidly as possible the wounds caused by the war, restoring the war-damaged areas of the country and greatly surpassing the prewar level of industry and agriculture. The solution of this task required the rehabilitation and further growth of heavy industry and railroad transportation, the rise of agriculture, the development of technology and advanced Soviet science and the insuring of a steady rise in the material well-being of the Soviet people.

The volume of centralized capital investments was planned at 250.3 billion rubles (in 1945 prices), thus exceeding the volume of capital investments during the First and Second Five-Year Plans taken together; of the total amount, 115 billion rubles were to be invested in formerly occupied areas. The cost of enterprises to be put into operation, both reconstructed and newly constructed establishments, was set at 234 billion rubles.

Most of the capital investments (157.5 billion rubles) were directed into Socialist industry. Capital investments in railroad transportation were 40.1 billion rubles, or two-thirds more than during the First and Second Five-Year Plans taken together. Capital investments (both centralized and noncentralized) in the state sector of agriculture were set at 19.9 billion rubles, and capital investments of the collective farms themselves at 38 billion rubles. Capital investments in housing (exclud-

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ing individual housing construction) were set at 42.3 billion rubles.

The chief tasks of the Postwar Five-Year Plan -- the restoration of war-damaged areas, the return to prewar levels in industry and agriculture and then a further rise of that level -- have been successfully fulfilled. The planned increase of industrial output by 1950 of 48 percent above the 1940 level was not only fulfilled but considerably overfulfilled. "The prewar level of gross industrial output has been exceeded by 70 percent during the first ten months of 1950" (N. A. Bulganin, 33-ya godovshchina Velikoy Okyabr'skoy sotsialisticheskoy revolyutsii /The Thirty-Third Anniversary of the Great October Socialist Revolution/, Gospolitizdat, 1950, page 9).

After World War I, the Civil War and foreign intervention, a return to the prewar level of industry had taken about 6 years. After the Great Patriotic War, and in spite of the fact that the damage suffered had greatly exceeded the losses during World War I, prewar output levels in the Soviet Union as a whole were reached as early as the end of 1947, i.e., a little more than twice as fast. By 1950, prewar industrial output levels had been exceeded even in the formerly occupied areas.

High rates of development in all branches of the national economy were achieved by the great volume of capital investments, which systematically rose during the postwar years. Thus, capital investments in 1946 were 117 percent of 1945, in 1947 110 percent of 1946, in 1948 123 percent of 1947 and in 1949 120 percent of 1948. During the first ten months of 1950, capital investments rose 25 percent compared with the same period of 1949.

In the course of 1946, about 800 state industrial enterprises were rebuilt or built anew and put into operation, in the course of 1946 and 1947 about 1,900, and during four years and 10 months about 6,000, not counting small state and cooperative enterprises. Such rates of activating new enterprises had never before been reached in any country.

Unprecedented rates were acheived in the reconstruction of coal mines. By the start of 1949 more than 600 million cubic meters of water had been pumped out of the flooded mines of the Donets Basin. "The history of technology has never known rates of reconstruction such as were acheived in the rehabilitation of the Donets Basin by Soviet people led by the Bolshevik party. It should be noted that the basin was reconstructed on new, modernized technical foundations" (Editorial in Pravda, 18 April 1949).

It is noteworthy that the pumping of water out of the French coal basins of Nord and Pas-de-Calais, which had been destroyed by the Germans during World War I, lasted almost 6 years, in spite of the fact that the damage was only one-fifth of that in the Donets Basin.

The blast furnaces, open-hearth furnaces, and rolling mills of the large southern metallurgical plants were also rebuilt and put into operation in an extremely short time.

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Large capital investments during the Postwar Five-Year Plan were made by collective farms. During 1946 and 1947 alone, collective farms invested 14 billion rubles, not counting the labor of the collective farmers (see I. A. Benediktov, "Speech at the Fifth Session of the Supreme Soviet of the USSR", Zasedaniya Verkhovnogo Soveta SSSR (pyataya sessiya), Stenograficheskiy otchet /Meetings of the Supreme Soviet of the USSR (Fifth Session), Stenographic Report/, published by Verkhovnyy Sovet SSSR, 1949, page 270). In accordance with the Stalinist plan of the transformation of nature, collective farms, state farms, and afforestation farms in the steppe zone of the European part of the USSR carried out a large amount of afforestation and irrigation. The afforestation plan of collective and state farms in 1949 was almost doubled in fulfillment. The plan for the development of socialized animal husbandry is also being fulfilled and overfulfilled.

Rapid development was also achieved during the Postwar Five-Year Plan in housing construction, both in town and country. During four years and ten months of the Postwar Five-Year Plan, about 90 million square meters of residential space were newly built or rebuilt in cities and workers' settlements, either by state enterprises and institutions and local soviets of working people's deputies or directly by individuals with the aid of state credit; in rural localities more than 2.5 million homes were built. Housing and municipal construction in Moscow and Moscow Oblast was also greatly expanded. Tall buildings of 16 to 32 floors are to built in the capital.

In 1950 began the construction of the Kuybyshev hydroelectric station on the Volga, the world's largest, with an average annual output of 10 billion kilowatt-hours of electric power. Due in 1951 is the start of construction on the Stalingrad hydroelectric station on the Volga, the Kakhovka hydroelectric station on the Dnepr, and the South Ukrainian and North Crimean canals. The great projects of the Stalin epoch -- the projects of communism -- also include the Main Turkmen Canal from the Amu-Dar'ya to Krasnovodsk, 1,100 kilometers long, with great dams, hydroelectric stations, pipe lines, irrigation and watering canals.

The people's democracies, having adopted the socialist road of development, are also successfully transforming their economy with the support of the USSR. Output in these states has greatly exceeded prewar levels.

As early as the frist postwar years, considerable capital investments were made in the people's democracies. New long-range plans envisage a considerable rise in capital investments compared with previous years. For example, in the new Five-Year Plans average annual capital investments in the economy of Czechoslovakia are due to rise threefold compared with actual investments in 1947-1948, in Bulgaria by 70 percent, and in Hungary more than twofold (see the magazine Planovoye khozyaystvo /Planned Economy/, No 4, 1949, page 80).

A totally different picture is offered by the capitalist world.

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In the capitalist countries, the volume of production and construction is dropping, unemployment is rising, military expenditures are increasing, inflation is growing, and the material standard of living of the working people is dropping. In his speech on the 32nd anniversary of the Great October Socialist Revolution, Comrade Malenkov said that industrial output in the United States in July 1949 was only 65 percent of the highest level reached during the war and that output was even lower in October 1949. Capital investments of the United States during 1946-1948 did not exceed (in 1939 prices) 60-80 percent of the 1942 level. According to the United States Department of Labor, outlays for industrial construction in the fourth quarter of 1949 were 41 percent below the fourth quarter of 1948, and for the entire year of 1949 were 30.3 percent below 1948.

The economy of the Marshall Plan countries has been disorganized. The excessive increase in military outlays of these countries and inflation are steadily reducing output and capital investments, closing a number of enterprises and raising unemployment. In Britain, for example, in connection with the devaluation of the pound sterling, under direct United States pressure, the already low volume of capital investments is being further reduced by an annual average of 35 million pounds in housing construction and 140 million pounds in industrial construction (see Pravda, 26 October 1949).

In recent years, especially in connection with the aggressive war in Korea, the United States has been placing its economy on a war footing. However, as Comrade Stalin has pointed out in his speech to the Eighteenth Party Congress, placing a capitalist economy on a war footing means "...to give industry a one-sided military orientation, to expand production of goods necessary in war but unrelated to consumer demands, to restrict production and especially the marketing of consumer goods, and consequently to reduce consumption by the population and confront the nation with an economic crisis" (I. Stalin, Voprosy leninizma, 11th edition, page 567).

5. Organizational Forms of Construction and the Development of the Construction Industry in the USSR

A requisite for the realization of the huge program of capital investments in the national economy was the creation of a strong construction industry based on an advanced construction technology and a skilled labor force.

The technical level of the construction industry had been low in prerevolutionary Russia and the organization of construction was largely primitive with a predominance of manual labor. During World War I, construction work ceased almost altogether. The Soviet regime had to create a construction industry anew.

By a decree of the Council of People's Commissars of 9 May (26 April) 1918 over the signature of V. I. Lenin, a Committee of State Work Projects was organized within the Supreme Economic Council. The executive organ of this committee was the Main Administration of State Work Projects which was charged with the "...preparation and execution of plans for

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work projects of state importance and those local projects that cannot be carried out with local materials and technical resources" ("Decree of the Council of People's Commissars of 9 May (26 April) 1918", Izvestia, 14 (1) May 1918).

In 1921 a special construction contracting office, the Gosstroy, was organized within the Supreme Economic Council and construction trusts were set up in the provinces, but the percentage share of construction work carried out by these construction organizations was still only 7-8 percent of all construction work in the country. Most of the construction work was carried out with the resources and funds of the enterprises themselves.

After the end of the reconstruction period when the country began the execution of the First Five-Year Plan and the volume of capital investments sharply increased, there arose the need for a new organizational and technical approach to construction and for an independent construction industry.

The leading principles in this direction were listed in the decisions of the Sixteenth Party Congress: "The growing scope and rapid rates of capital construction require all-out intensification of the transition to industrial construction methods through the use of standardization, typification and scheduled planning, and the maximum mechanization of construction work, the transition to year-round construction operations and the creation of a permanent labor force" (VKP(b) v rezolyutsiyakh i resheniyakh s"yezdov, konferentsiy i plenumov Tsk /The All-Union Communist Party (Bolshevik) in the Resolutions and Decisions of Congresses, Conferences and Plenums of the Central Committee/, Part II, 1941, page 416).

There are two methods of carrying out construction work: (1) the contracting method, when the work is done by permanently functioning special construction organizations for a client; (2) the economic method, when the work is done directly with the resources and funds of the enterprises or organizations that are being constructed or expanded, i.e., directly by the builders. It is evident that in the construction or expansion of a given enterprise part of the work can be carried out directly by the builder (i.e. by the economic method), while the other part is carried out by a special construction organization on the basis of a contract (by the contracting method).

A comparison of these two methods points up the advantages of the contracting method. In the economic method, the construction group has to be created anew every time, construction implements and means of transportation must be acquired, auxiliary enterprises must be organized and workers must be recruited. After the completion of construction work in a certain place, the acquired experience cannot be exploited, the construction workers usually are incorporated into the operating labor force of the newly built enterprise and lose their acquired skill as building workers.

When the work is done by permanently functioning special construction organizations, the construction work can be greatly mechanized and

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performed in industrial fashion, maximum use can be made of prefabricated parts, a labor force of skilled construction workers can be created, the Stakhanovite movement can be developed, and the cost of the construction work can be reduced. The need for introducing this method was noted in a decree of the party and government as early as 1936:

"The basis for the reorganization of the construction business and for a reduction of construction costs must be found in the transition from handicraft methods and compartmentalization in the construction business to the creation of a large-scale construction industry. Construction work must be carried out by the contracting method, i.e., by permanent construction contracting organizations supplied with their own material and technical base (machinery, transportation, working capital, residential space, and so forth) and their own permanent labor force, making use of the large-scale industrial production of prefabricated parts, semi-finished sections and subassemblies" (From the Decree of the Council of People's Commissars USSR and the Central Committee of the All-Union Communist party (Bolshevik) of 11 February 1936 "On the Improvement of the Construction Business and the Reduction of Construction Costs", Izvestiya, 12 February 1936).

During the Second Five-Year Plan, the technical equipment of the construction industry greatly improved; the pool of construction machinery expanded sharply, construction work was increasingly mechanized, and the share of the work done by contracting methods increased.

The great program of capital work adopted by the Eighteenth Party Congress for the Third Five-Year Plan, the need for the expansion of speeded construction methods and the level achieved by the construction industry at that time posed the new task "of converting the construction industry from a backward into a leading branch of the national economy, with a broad development of complex mechanization and the use of prefabricated construction parts and subassemblies" (Rezolyutsii XVIII s"yezda VKP(b) /Resolutions of the Eighteenth Congress of the All-Union Communist Party (Bolshevik)/, Gospolitizdat, 1939, page 31).

A major step forward in the realization of this task was the decision adopted by the third session of the First Supreme Soviet of the USSR on the organization a special people's union commissariat dealing with construction, which would combine the large construction trusts of a number of industrial branches. The new people's commissariat handled the construction of the most important industrial projects. At the same time a number of separate construction trusts and main administrations were set up in a number of industrial and other people's commissariats.

After this reorganization the total volume of construction carried out by the contracting method sharply increased. During the war years the share of construction and installation work done by the contracting method reached 75 percent.

In the Postwar Five-Year Plan, the construction industry faced new, even more important tasks. For the first time, the Five-Year Plan listed not only the volume of capital investments (250.3 billion rubles), but also the volume of construction and installation work (153 billion

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rubles), or an annual average of more than 30 billion rubles. This was about twice the construction and installation work done in the last prewar years.

The solution of the tasks posed by the Postwar Five-Year Plan required the organization of new construction ministries and main administrations and a special Ministry of Construction /Machinery/ and Road Machinery Building USSR.

At the present time there are two all-union construction ministries: the Ministry of Construction of Heavy Industry Enterprises and the Ministry of Construction of Machine-Building Enterprises, and a number of republic ministries of housing and civil construction and main administrations dealing with rural and collective farm construction. In addition, large construction organizations are found in a number of other ministries: coal industry, oil industry, power stations, aircraft industry, railroads, and others. A Ministry of Urban Construction USSR has been organized.

Of major significance in the matter of raising the construction industry to higher levels has been the organization in May 1950 of the State Committee of the Council of Ministers USSR dealing with construction.

The main links of the construction ministries and main construction administrations are the contracting construction trusts, which carry out construction and specialized work on the basis of contracts with their clients. On the basis of volume, nature and conditions of work, we distinguish the following types of trusts: general construction trusts, which in turn are divided into territorial trusts (carrying out their work through their own administrations in various areas), city trusts and building site trusts (restricting their work to a certain city or building site); and specialized trusts, which carry out certain types of work throughout the Soviet Union or union republics or groups of krays and oblasts.

The general construction trusts handle basic construction work on industrial, residential, transportation, cultural-social, commercial-warehouse, administrative, municipal and other buildings and projects.

The specialized trusts handle sewage, electrical, hydraulic, heat-insulation, blasting, earth-moving and other specialized work, also the installation of steel construction, machinery, etc.

The industrialization of construction work has been evident in the gradual percentage increase of the work done by specialized contracting organizations. In 1939, 30 percent of all the construction work handled by the People's Commissariat of Construction was done by specialized organizations; in 1946 the share of such work in the Ministry of Construction of Heavy Industry Enterprises was 46.8 percent.

Depending on the volume and the conditions of work, construction administrations, offices and sectors are formed within general construction trusts and specialized trusts.

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In addition to the general construction and specialized trusts, the construction ministries and main administrations contain enterprises engaged in the production of prefabricated construction subassemblies and parts, and organizations dealing with the supply of construction materials.

Large construction projects carried out by the economic method generally have an office of the chief of construction (in new projects) or a capital construction department called "oks" /for the Russian initials/ (in existing enterprises); the relationship between the director's office of the enterprise under construction or the existing enterprise and the chief of construction or "oks" corresponds to the relationship between the client and the contracting organization in the case of the contracting method.

The fulfillment of the great program of capital construction during the Postwar Five-Year Plan required the carrying out of a number of key measures. The chief measures were: concentration of material and monetary funds and labor force at the key projects; supplying of these projects with high-quality designs and cost estimates; raising the general organizational and technical level of the construction industry; maximum utilization of prefabricated parts and subassemblies and wide introduction of rapid mass-assembly construction methods; considerable increase in the mechanization of construction and installation work and of auxiliary work using modern equipment; general development of complex mechanization; unconditional observance (and reduction) of the expenditure rates of materials; increase in labor productivity, insistence on economic accountability and a regime of economies. All this created the necessary requisites for a further reduction of construction and installation costs, a speedier turnover rate of funds and a greater profitableness of the construction industry. Of special significance in this connection was the decision adopted by the government in May 1950 on the reduction of construction costs.

"On the initiative of Comrade Stalin, the Council of Ministers USSR has decided to reduce the estimated cost of construction by an average of 25 percent, effective 1 July 1950, with the 1950 plan of new production capacity remaining in force. The reduction of construction costs should be achieved through the elimination of excesses in designs and cost estimates, reduction in the cost of the construction and installation work itself, and further reduction of the wholesale prices of materials and equipment and transportation rates. This decision of the government is of major economic importance. A reduction in the cost of construction work will greatly increase the effectiveness of capital investments and ultimately lead to rises in output and a growth of the public wealth" (A. G. Zverev, O gosudarstvenom byudzhete SSSR na 1950 god i ob ispolnenii gosudarstvennogo byudzheta SSSR za 1948 i 1949 gody /On the State Budget of the USSR for 1950 and on the Fulfillment of the State Budget of the USSR for 1948 and 1949/, Gospolitizdat, 1950, page 14).

In its editorial of 24 May 1950, the newspaper Pravda said: "A reduction in construction costs should be one of the most immediate and important tasks of the army of builders, installers, planners, workers

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of the construction materials industry, metallurgy, the lumber industry and other branches of the national economy".

In this connection great significance is assumed by the pledges of leading construction groups to lower the cost of construction and installation work and speed the turnover rate of funds, thus freeing funds for further use by the state. A key role in the realization of this task belongs to the long-term investment banks that finance construction.

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CHAPTER II

THE CHIEF TASKS AND METHODS OF FINANCIAL CONTROL OVER CONSTRUCTION. ORGANIZATION OF LONG-TERM INVESTMENT BANKS, THEIR STRUCTURE AND FUNCTIONS.

1. Separate Financing and Crediting of Investments in Fixed and Working Capital of the National Economy of the USSR

In the Socialist system, the national economy develops according to plan. The economic plan envisages the volume and distribution of the national income and the volume and direction of investments in fixed and working capital.

The characteristics listed in Chapter I of advancing funds for the creation of fixed capital require in a planned economy the provision of special sources for such financing.

Short-term resources cannot be used for advancing the fixed capital of a Socialist economy. The sources for such financing are long-term resources provided by the plan. The chief source of financing the expanding reproduction of the fixed capital of state enterprises is the state budget of the USSR. Long-term credits are used to finance the fixed capital of collective farm and cooperative enterprises.

The separate allocation in the economic plan of monetary and material resources for the expanding reproduction of fixed and working capital has required the separate accounting of transactions of the basic (operational) activity of enterprises and their capital investments. The use of funds that have been provided for operational activity for the purpose of capital investments and the use of funds that have been provided for capital investments for the purpose of operational activity is prohibited by law.

The financial and credit system of the USSR, as an organ of the Soviet state, has served in all stages of Socialist development and is continuing to serve as a tool for the fulfillment of the plan. The task of the financial and credit system (aside from the accumulation of funds) is to provide an organization of the system of financing and crediting the expanding reproduction of fixed and working capital that prevents the switching of funds provided separately by plan and insures the necessary control over their intended and most effective utilization.

The forms and methods of short-term crediting and control over the course of production and the circulation of goods are determined by the nature of the circulation of working capital, in particular the rate of turnover set by the plan and the repayment of loans within the terms planned for the turnover of credited items. The forms and methods of financing capital investments are determined by the characteristic nature of the reproduction of fixed capital, in particular the investment at one time of the total amount for a long period during which the fixed capital functions in the production process. The nature and methods of financing capital investments are also affected by the fact that the process of construction is relatively lengthy, that the com-

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pleted state factories, plants and other enterprises do not enter into circulation and that funds used in the financing of construction are not recovered. Consequently the methods used in financing the fixed capital of the national economy differ from the short-term crediting of working capital and should be able to insure daily state control over the individual elements of outlays and stages of construction.

The different nature of the turnover of funds advanced for the reproduction of fixed and working capital and the different sources, forms and methods of financing and crediting the reproduction of fixed and working capital in a planned economy require the separation of the Soviet banking system into the following two categories: short-term crediting, which serves the sphere of working capital and circulating capital of the national economy and is concentrated in the State Bank, and the financing and crediting of capital investments in the fixed capital of the national economy, which is the function of specialized banks. The credit reform of 1930-1931 established the separation of the banking system according to this principle.

2. Financing and Crediting of Capital Investments Before the Credit Reform of 1930-1931

After the Great October Revolution, the Soviet banking system as part of the state apparatus was transformed "from the center of the economic rule of financial capital and the tool of political rule of the exploiters into the tool of the workers' regime and a lever of the economic revolution" (Programma i ustav VKP(b) /The Program and Charter of the All-Union Communist Party (Bolshevik)/, Partizdat, 1937, page 34).

The organization, structure and functions of the banks has continued to change in successive stages of Socialist development. In the first years of the New Economic Policy, the task of rehabilitating the national economy required chiefly the organization of working capital and the adjustment of economic relations, while capital investments were very small and were used chiefly for capital repairs and power construction projects. During this period, crediting and accounting operations of the national economy were handled by the State Bank and a number of trade banks (chiefly for short-term credits), which (as well as the State Bank) also handled long-term crediting.

The percentage share of long-term credits of the banking system during the reconstruction period in the total volume of credit investments was 22.6 percent on 1 October 1923 and 24.6 percent on 1 October 1926 (see Finansy SSSR za XXX let /The Finances of the USSR during 30 Years/, Gosfinizdat, 1947, page 84).

A separate long-term crediting department (ODK) was set up in 1926 within the Trade-Industrial Bank (organized in 1922) and rapidly began to play a major role.

The fulfillment of the first Stalinist five-year plan, which provided a huge increase in capital investments in industry and power installations, required a decisive reorganization of the credit system. In 1927, the government decided to reorganize the clientele of the banks

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and concentrated the crediting of the major branches of the economy in the State Bank. In 1928, the ODK of the Trade-Industrial Bank and the Electric Power Bank (established in 1924) were transformed into the Long-Term Credit Bank of Industry and Electric Power of the USSR (BDK). The following data indicate the growth of operations of this bank: By 1 August 1929, long-term credits given by BDK were 1,879 million rubles, including 1,470.2 million rubles for capital investments (Materialy po organizatsii dolgosrochnogo kredita /Materials on the Organization of Long-Term Credit/, Issue 4, Moscow, published by Prombank, 1929, page 14).

Quite substantial was also the volume of long-term credits given to agriculture by the Central Agricultural Bank and local agricultural credit societies (The agricultural credit societies were organized in 1923 and the Central Agricultural Bank in 1924). The volume of long-term farm loans rose steadily from 15.2 million rubles as of 1 October 1924, to 724 million rubles on 1 October 1927 and 1,988 million rubles on 1 July 1929.

Local municipal banks were organized in 1923, followed by the Central Municipal Bank (Tsekombank) in 1925, to finance residential and municipal construction. The long-term credit operations of the municipal banking system rose from year to year. As of 1 October 1928, the total volume of long-term credits given by Tsekombank and local municipal banks was 999 million rubles, and as of 1 July 1929 1,381 million rubles.

The rapid increase of long-term credits also raised their percentage share in the total volume of bank credits. Long-term credits were 840 million rubles, or 24.6 percent of all credits, as of 1 October 1926; 4,144 million rubles, or 48 percent, as of 1 October 1928, and 5,577 million rubles, or 54 percent, as of 1 July 1929.

Long-term credits were moreover increasingly concentrated in the trade banks, while short-term credits were increasingly handled by the State Bank. Taking the total credits as of 1 July 1929 as 100, the share of individual types of banks in the credit picture was as follows:

Banks	Long-term Credit	Short-term Credit
State Bank	4.7	73.0
BDK (Long-Term Credit Bank)	32.8	--
Central Agricultural Bank and local farm banks	35.6	10.2
Tsekombank and local municipal banks	24.7	7.6
Cooperative banks	2.0	6.0
Other banks	0.2	3.2
	100	100

(See Finansy SSSR za XXX let, Gosfinizdat, 1947, page 110-111).

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Prior to 1927, part of the budget appropriations provided for industry were supplied directly by the budget and also through the State Bank. Starting in 1927, all budget appropriations for the fixed capital of industry were supplied only through the Long-Term Credit Department of the Trade-Industrial Bank.

Subsequently, short-term crediting was concentrated even further in the State Bank and all operations connected with the financing and crediting of capital investments were handled by specialized trade banks.

Even in this period banks did not grant long-term credit on the basis of their short-term resources, but on the basis of special resources, chiefly budgetary funds and special funds.

Right up to the credit reform of 1930-1931 the banks financed capital investments both in the form of long-term loans and in the form of nonrepayable financing.

It should be noted that the trade banks during this period were joint-stock companies under the control of their shareholding agencies. The Long-Term Credit Bank, for example, was under the control of the Supreme Economic Council of the USSR. The municipal banks were also joint-stock organizations, with at least 50 percent of the stock held by the guberniya executive committees. The Central Municipal Bank was under the control of the People's Commissariat of Finance of the USSR, the People's Commissariat of Labor of the USSR and the people's commissariats of internal affairs of the union republics. Cooperative banks were under the control of the State Bank and various cooperatives and their central organizations. Finally, the Central Agricultural Bank was under the control of the People's Commissariat of Finance USSR, the people's commissariats of agriculture of the union republics and the agricultural cooperatives.

3. Organization of Long-Term Investment Banks in the People's Commissariat of Finance of the USSR.

Basic Principles of the Present System of Financing and Crediting Capital Investments.

In adopting the first Stalinist five-year plan in April 1929, the 16th party conference stressed in its decisions the need for improving the system of financing and crediting the national economy, intensifying the struggle for economies, making fuller use of and mobilizing the available equipment, and raising the effectiveness of capital investments. On 5 December 1929, the party's Central Committee reached a decision "On the Reorganization of the Administration of Industry" (M. Savel'yev and A. Poskrebyshev, Direktivy VKP(b) po Khozyaystvennym voprosam /Directives of the All-Union Communist party (Bolshevik) on Economic Questions/, Sotsekgiz, 1931, page 614) in which it stressed the importance of economic accountability as a basic method of directing Socialist enterprises. At that time, moreover, the role of planning in the development of the economy greatly increased. The need for a radical credit reform thus became pressing:

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"The rapid development of Socialist principles in the national economy of the USSR and the level attained by planning have made necessary a radical credit reform" (From the decree of the Central Executive Committee and the Council of People's Commissars USSR of 30 January 1930 "On the Credit Reform", Izvestiya, 1 February 1930).

The elimination of bills of exchange in the socialized sector of the national economy, the transition from commercial credit to direct bank credit, and the concentration of all short-term crediting in the State Bank -- all this produced major changes in the work of the trade banks, which became henceforth special long-term investment banks.

At the time of the credit reform, the Long-Term Credit Bank and the Tsekombank handled only the long-term crediting of industry and residential and municipal construction. Short-term crediting still played a substantial role in agricultural credits, in cooperative banks and in local municipal banks.

After the credit reform the short-term credit operations of the cooperative banks were entirely transferred to the State Bank and the cooperative banks became exclusively long-term investment banks. The short-term crediting operations of local municipal banks affecting local industry were also transferred to the State Bank, the municipal banks became essentially long-term investment banks and their short-term credit operations were limited to municipal enterprises and organizations.

The greatest changes took place in the farm credit system. The Central Agricultural Bank was transformed into the All-Union Agricultural Cooperative and Collective Farm Bank and placed under the control of the All-Union Council of Agricultural Cooperatives. The republic, kray and oblast agricultural banks were abolished (as independent banks) and converted into branches of the Cooperative and Collective Farm Bank. The lowest links of farm credit were still the agricultural credit societies.

The Sixteenth Party Congress decided to submit the entire organizational structure of the collective farm and cooperative system to a radical re-examination.

As of 1 January 1931, the Collective Farm and Cooperative Bank ceased its operations and all farm credits, both long-term and short-term, were transferred to the State Bank. However, the subsequent development of collectivization, the sharp increase of capital investments in agriculture, and the need for concentrating the attention of the State Bank system on the problems of monetary circulation, accounts and short-term crediting made it necessary to release the State Bank of its long-term investment obligations in agriculture. In May 1932, a special Agricultural Bank (Sel'khozbank) was organized.

The first stage of the credit reform was hampered by mismanagement, such as automatic granting of credits and crediting below the plan, that undermined the system of economic accountability. In 1931 the party and government adopted the necessary measures to put an end to this mismanagement.

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The work of the Long-Term Credit Bank of Industry and Electric Power was completely reorganized. To insure the expenditure of funds in accordance with the course of fulfillment of the construction plan, the Long-Term Credit Bank was required to grant credit only on the basis of the actual fulfillment of construction tasks and obligations assumed by the projects in their contracts with the bank; the Long-Term Credit Bank had the right with the approval of the People's Commissariat of Workers' and Peasants' Inspection and the People's Commissariat of Finance USSR to open branches in major construction areas and, when necessary, to designate representatives to State Bank branches.

Also about this time a solution was found to the problem of the nonrepayable nature of the financing of capital investments of state enterprises and organizations. Until then the question of the use of budgetary funds for the purpose of capital investments in industry and for the purpose of working capital had been solved separately in each specific case.

Funds granted by the Long-Term Credit Bank (and previously by the Long-Term Credit Department of the Trade-Industrial Bank) from its own resources, from special funds or from the deposits of industry itself were granted only as long-term loans.

Starting in 1930, all appropriations in the state budget for the financing of state industrial, transportation, commercial and agricultural enterprises became nonrepayable.

Starting in 1934, all funds (budgetary as well as the organizations' own funds) granted through Prombank, Tsekombank and Torgbank (then called Vsekobank) for the financing of capital investments in state enterprises of industry, transport and communications, including residential, municipal, and social construction and the construction of workers' supply departments, were regarded as nonrepayable. At the same time, the indebtedness of these enterprises to the special banks was canceled, as were their arrears of payments and special contributions for the financing of capital construction.

The establishment of nonrepayable financing of capital investments of state enterprises and organizations was based upon state (national) ownership of the tools and means of production. The monetary accumulations of state enterprises belong to the state and are disposed of by the state in a planned manner, including capital investments. In individual cases, long-term loans (repayable within three years) are granted for capital investments in local industry.

The situation is different with respect to the financing of capital investments in collective farms and cooperative organizations.

Capital investments of cooperatives are financed largely from their own funds accumulated in special accounts of the cooperative systems in

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the banks. Therefore the financing of capital investments of individual cooperative organizations is handled in the form of repayable long-term loans. The repayment requirement in this case is based on the fact that funds belonging to the cooperative system as a whole are being used for individual cooperative organizations (capital investments that are related to the system as a whole (for example, the construction of cooperative educational institutions) and are being financed from the special accounts of the cooperative organizations that undertake the construction are nonrepayable).

Funds contributed by collective farms for capital investments in accordance with Paragraph 12 of the Stalinist Charter of Agricultural Artels are kept in the bank and are used directly by each collective farm. In addition the Socialist state grants financial aid to the collective farms to enable them to fulfill key state measures and further strengthen the organization and economy of the collective farms. Aid to the collective farms for capital investments is rendered in the form of long-term loans, chiefly out of the state budget.

At the present time, the financing of capital investments of state enterprises and organizations is usually nonrepayable, while capital investments of collective farms and cooperative organizations are handled in the form of long-term loans, a difference in approach that is based on the differing forms of ownership of the tools and means of production.

The great rise in capital investments at the end of the First Five-Year Plan (19.3 billion rubles in 1932 compared with 5.4 billion rubles in 1928), the high level reached by the planning of the national economy, the increased share of budgetary funds used in the financing of capital investments, and the adoption of nonrepayable financing of capital investments of state enterprises, all this required greater financial control over the use of funds granted for capital investments and the implementation of a unified credit system. In this connection, the operation of banks engaged in the financing and crediting of the national economy had to be reorganized. In 1932, the government decided to organize all-union long-term investment banks (special banks) within the People's Commissariat of Finance USSR (Decree of the Central Executive Committee and the Council of People's Commissars USSR of 5 May 1932 "On the Organization of Special Long-Term Investment Banks", Izvestiya, 6 May 1932). These banks, which are still in existence, are:

(1) a bank for financing capital construction of industry, transportation and communications -- Prombank;

(2) a bank for financing Socialist agriculture -- Sel'khozbank;

(3) a bank for financing capital investments of trade and cooperatives -- Torgbank (at first called Vsekobank).

(4) a bank for financing municipal and residential construction -- Tsekombank.

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Each of these special banks has been given specific functions. Prombank handles the financing of capital investments of state enterprises and organizations in industry, transportation and communications, including the residential and cultural-social construction of these organizations. Sel'khozbank handles the financing (and long-term crediting) of capital investments of state agricultural enterprises, the long-term crediting of capital investments of collective farms and of the rural population for residential construction and other needs. Tsekombank and local municipal banks handle the financing of residential, municipal, and cultural-social construction, capital investments of the motion picture industry, education and health organs and the long-term crediting of the working people for individual residential construction. Torgbank handles the financing of capital investments of state trade and procurements and the long-term crediting of capital investments (and the replenishing of working capital) of cooperative organizations.

Specialization of the investment banks by economic branches makes it possible to take better account of special factors in the capital investments of these branches and to insure more effective control. This has also been facilitated by the transfer of all specialized banks from their own agencies to the Ministry of Finance USSR and the establishment of uniform forms and methods of financial control over construction.

All funds of enterprises and organizations intended for capital investments, whether derived from the budget or the organizations' own funds, are concentrated in the investment banks. These banks handle the accounting operations of their own clientele, the short-term crediting of contracting organizations and their supply organs, and the accounts and short-term crediting of municipal enterprises (in the case of the municipal banks).

The financing and crediting of capital investments is handled by the special banks on the basis of plans approved by law.

The specific forms and methods of bank control were set up by a number of government decisions. Starting in 1933, the special banks began to finance only those projects that possessed approved cost estimates and itemized construction lists and financing proceeded only until the estimated cost or the appropriation for the construction of the project was exhausted. At the same time control over individual outlay elements was set up: a check on the prices of materials and equipment, granting of funds for the wage bill within established limits, granting of funds for administrative-economic and other expenditures in accordance with established estimates. In contracted projects, the banks paid for the work by order of the clients on the basis of bills accepted by the clients at the contracted prices. Preliminary control thus became a key function of the special banks and resulted in tighter financial and cost-estimating discipline and reduced construction costs.

Major changes occurred in the methods and forms of the control work of the investment banks with the decree of the Council of People's Commissars of the USSR and the Party's Central Committee of 11 February 1936. The decree was brought about by the need for introducing economic account-

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ability in construction and further extending the contracting method of construction work. The investment banks were given the right of financial sanctions in case of mismanagement in a project, as a result of which further financing was halted until a decision was made by a higher economic organ. The granting of funds for administrative-economic outlays ceased as soon as the appropriations estimated for that purpose were exhausted.

Of major importance in the matter of improving control over the observance of construction cost estimates was the rule by which work performed by contracting organizations was paid for only on the basis of bills and acts listing cost-estimate prices and only within the limits of the specific cost estimate of each major construction item, rather than within the estimated cost of the project as a whole. At the same time, the special banks introduced a system of short-term credits to contracting construction organizations.

At about this time enemies of the people managed to gain access to the leadership of some special banks and in their attempts to wreck introduced formal bureaucratic working methods. This led to many cases of mismanagement, in particular the improper use of financial sanctions.

The elimination of the remnants of wrecking activities in the special banks required a major reorganization of their work. There also was a need for reorganizing the work of the economic organizations charged with the planning and cost-estimating of construction projects. On 26 February 1938, the government issued the decree "On the Improvement of Planning and Cost Estimates and the Reorganization of the Financing of Construction" (Izvestiya, 27 February 1938). Approved at the same time were: Regulations of Financing Construction by the Prombank, later applied by the People's Commissariat of Finance USSR to the other special banks; instructions for the making of designs and cost estimates in industrial construction; and regulations for construction contracts, as well as typical construction contracts, both of the general and the annual type.

The most important changes took place in the financing of contracting construction, which by that time had become the predominant construction method. Instead of the previous method of determining the volume of completed work on the basis of so-called percentage acts, which was rather approximate and often led to excessive financing, the new method provided for the execution of acts for completed parts of construction elements. The use of financial sanctions was regulated and a system of financial incentives was provided for construction projects and contracting organizations that fulfilled their construction and cost plans and showed a good organization of their finances.

The reform thus completed the reorganization of the investment banks and set up an orderly system of financing and crediting capital investments. The investment banks had become the basic apparatus of state financial control over construction.

The basic principles of financing and crediting capital investments, which are still effective at the present time, are the following:

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1. The financing and long-term crediting of capital investments are completely separated from the short-term crediting of the national economy and are handled by special long-term investment banks.

2. The special banks, which are differentiated according to branches of the national economy, form part of the Ministry of Finance USSR, work under its direction and constitute a unified system.

3. The financing and crediting of capital investments is handled by the long-term investment banks exclusively from special sources provided by plan, including both budgetary appropriations and the contributions of the economic enterprises and organizations themselves; the use of these funds for other purposes (such as operational needs) is prohibited.

4. All contributions due for capital investments, either by law or by charter (in the case of the collective farms), must be paid by the economic enterprises and organizations into the appropriate special banks.

5. These banks control all capital investment funds and fulfill their financing, crediting and control functions in their capacity as organs of general state accounting and control over capital investments.

6. The banks finance only the construction that is part of the economic plan and has been properly documented with approved designs and cost estimates. In addition, capital investments outside of the plan, the so-called extra-limit investments, can be financed with special government permission.

7. Capital investments are financed and credited within established financing limits that take account of the contributions made for construction by the economic organizations themselves.

8. As a rule the financing of capital investments of state enterprises and organizations is nonrepayable, while that of cooperative organizations and collective farms takes the form of long-term loans.

9. A uniform regime of financing and long-term crediting applies to all state enterprises and organizations and uniform methods of financial control over capital investments are used irrespective of the sources of financing or crediting. The crediting of capital investments of collective farms is guided by special principles, which are determined by the organizational and economic characteristics of collective farming.

10. The special banks finance and credit capital investments at cost-estimate prices as the capital investment plan is being fulfilled, and constantly observe the established control procedures.

11. Accounting operations relating to capital investments are handled by the special banks and are under their control. These banks also grant short-term credits to contracting construction organizations.

12. The special banks exercise control over the specified utiliza-

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tion of funds intended for capital investments and over the fulfillment of the construction plan, over observance of design-estimates and financial discipline, over reduction of construction costs and over the strengthening of economic accountability and payment discipline in construction. This control is both preliminary -- prior to the granting of the funds and in the course of the accounting operations -- and subsequent.

13. In carrying out their function of state financial control over construction, the special banks have the right to investigate projects and contracting organizations (without interfering in the operational and economic aspects of the project) and inspect the fulfillment of their work and to call for balance sheets, audits and other documents required for their inspection. If they discover mismanagement, the banks may, after having notified the superior economic organ, impose financial sanctions. In the case of properly operating projects and contracting organizations, the banks may grant financial incentives.

The organizational structure, tasks and methods of the work of these banks is entirely the product of the character of the Socialist economic system.

4. Control Work of the Long-Term Investment Banks during the Period of the Great Patriotic War

The system of financing and control of capital investments established before the Great Patriotic War withstood the tests posed by wartime conditions. At the same time, however, the war led to new forms of control and required greater operational efficiency and maneuverability on the part of the investment banks.

Wartime conditions required the complete and timely accumulation by the banks of all funds intended for capital investments and the concentration of these funds for the financing of construction and of the rehabilitation of war plants and related industries. Greater stress was placed on the most efficient utilization of monetary and material funds and the maximum mobilization of internal resources in construction.

Wartime conditions required the temporary halt of construction at a number of projects and all resources of these interrupted projects had to be mobilized and concentrated in war construction projects.

The material resources available in interrupted projects were transferred to active projects of the same people's commissariats or to the basic operations of enterprises. All accounts relating to these transferred resources as well as the funds realized from the sale of other assets of the interrupted projects were concentrated in centralized accounts of the main administrations of ministries and served as sources for the financing of active projects. As soon as a project was halted, the banks financed only those outlays that were essential for the maintenance and protection of the completed part of the project.

During 1942 and 1943, several billions of rubles were saved through the mobilization of internal resources and the reduction of construction costs. At the same time, the investment banks by exercising their con-

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trol over the mobilization of internal resources at the projects were able to redistribute material reserves in favor of war projects and related branches of the economy.

The first period of the war was characterized by an unprecedented eastward evacuation of industrial enterprises. The special banks financed the expenditures relating to the dismantling and loading of the evacuated equipment, the reassembly of the equipment at its destination and the construction of the new production areas. Toward the end of 1941 and particularly in 1942, the special banks started to finance new construction of war plants, metallurgical, fuel, power and machine-building enterprises, and residential construction.

Under wartime conditions when military and economic requirements were constantly changing, quarterly capital investment and construction plans (in addition to the annual plans) gained operational importance. This also required greater operational efficiency in the work of the long-term investment banks.

The people's commisariats (people's commissars) were given extraordinary powers in maneuvering appropriations for construction. They had the right: to redistribute capital investments among above-limit projects approved by the Council of People's Commissars USSR, provided the appropriation reduction at any one project did not exceed 10 percent; to redirect to active projects funds provided by the plan for projects that were interrupted because of the war; to permit partial departures from approved extra-limit construction designs and cost estimates within the limits of the general cost estimate of each project; to approve the start of operations in completed enterprises or parts thereof prior to notification of the Council of People's Commissars USSR.

With a view to speeding the completion of new production capacities and residential space with a minimum outlay of materials, the government permitted the construction during wartime (in case of necessity) of buildings designed for short-term operations, making maximum use of wood instead of metal, of local materials and so forth. In this connection it was decreed that accounts with contracting organizations be settled on the basis of actually performed work (following approved work plans) at unit prices agreed on with Prombank.

The checking of unit prices, i.e. the estimated cost of a unit of a construction element, became one of the key jobs of the special banks, particularly Prombank, in the course of the war. This job was so important because during the war a number of projects were permitted to work not only on the basis of cost estimates of individual project items (without a general cost estimate for the project as a whole), but also on the basis of preliminary cost estimates using aggregate indicators and sometimes simply on the basis of unit prices.

Starting in the second half of 1943, work began on the restoration of the temporarily occupied areas. Appropriations for capital investment in these areas were 16 billion rubles in 1944 and 20 billion rubles in 1945.

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This restoration work, especially in its initial period, differed greatly from the construction of new and the reconstruction of operating enterprises. Special regulations for financing this restoration work continued in effect until 1948. These regulations had the purpose of simplifying work in the liberated areas and speeding the restoration of enterprises, residential space and cultural sites. The regulations permitted financing on the basis of a simplified designs and estimates dossier, especially in the case of projects that were being restored to their prewar capacity; wrecking operations (dismantling of ruins and so forth) were financed on the basis of actual outlays. Within an initial period of three months, restoration construction and assembly work was also financed on the basis of actual outlays (with subsequent recalculation on the basis of cost estimate rates).

Collective farms in areas that had been temporarily occupied were given favorable long-term credit terms. These collective farms were given loans merely on the basis of their remaining real estate and were granted credit for the purchase of livestock and horses without the usual requirement that they contribute part of their own funds. Long-term credit for the construction of individual housing in these areas was also granted at favorable terms.

Under these conditions the long-term investment banks obviously had to establish special control measures for the most economical and efficient use of the large funds provided by the state for restoration work. "The huge funds provided by the state for restoration, said M. I. Kalinin, "should be used as economically, thriftily and efficiently as possible, and the party and Soviet organizations should spur the people's energy and their initiative toward full utilization of local resources" (M. I. Kalinin, "The Great National Task", Izvestiya, 10 December 1943).

The changing nature, distribution and location of construction projects in various stages of the war required a major reorganization of the long-term investment banks, in particular the founding of new branches in the east and the restoration and subsequent expansion of the bank network in the former occupied areas.

The rapid rates and great volume of capital investments during the Great Patriotic War played a key role in insuring the ultimate victory of the Soviet Union over Hitlerite Germany and imperialist Japan.

5. The Long-Term Investment Banks during the Postwar Five-Year Plan

The work of the long-term investment banks was confronted with new demands during the postwar plan, especially in connection with the monetary reform of 1947. The banks were given the task of further strengthening economic accountability and the regime of economies in construction and reducing its costs.

The basis of economic accountability in construction and of the observance of financial discipline is the existence of economically computed cost estimates.

In the absence of such an estimate or when estimates or cost

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estimate rates are inflated, construction costs rise and economic accountability is disrupted. The law of the Postwar Five-Year Plan envisaged the need of realizing construction work only on the basis of properly approved technical designs and cost estimates. Accordingly, the long-term investment banks do not finance projects that lack the properly approved designs and estimates dossier. However, a solution of the problem of reducing construction costs required a radical change in the entire system of making up, approving and checking designs and cost estimates and the implementation of a number of other measures in accordance with decisions adopted by the government in May 1950.

At the present time cost estimates of the largest construction projects are approved by the Council of Ministers USSR. Ministries and agencies and the Councils of Ministers of union republics are required to register the approved designs and estimates dossier with the State Committee of the Council of Ministers USSR dealing with construction. This does not exclude a check of the cost estimates for purposes of control by the investment banks, especially in the case of less large projects whose estimates are not reviewed by the State Committee.

In addition, the investment banks are called upon to strengthen their control over the project's observance of the cost estimate limit, both for the project as a whole and for its parts.

Major factors in achieving greater effectiveness of the capital investments provided by plan and in reducing their costs are the speeding of construction and the concentration of monetary and material resources in key parts of projects. The implementation of the instructions given by the party and government has already yielded results. But the struggle against the squandering of funds continues to engage the attention of the investment banks. "The success of any construction project must be judged not simply on the basis of the funds 'used' by the project but on the basis of actual results achieved with the expended funds" (V. Molotov, V bor'be za sotsializm /In the Struggle for Socialism/, Partizdat, 1935, page 580). This statement of Comrade Molotov, which related to 1934, is still entirely applicable today.

Of tremendous importance in the reduction of construction and installation costs is the implementation of a financing system that prevents the overexpenditure of state funds.

The struggle for the observance of designs and cost estimates and financial discipline on the part of projects and contracting organizations also requires greater control over the individual elements of construction costs: equipment and materials, outlays for wages, administrative-economic and other overhead outlays.

Since the investment banks handle all accounts related to capital investments, their work as organizers and controllers of these accounts is of special importance. Better accounting discipline on the part of projects and contracting organizations and the speedier turnover of funds in the accounting phase require better organization of the accounting work of the banks, constant observance of the payment schedules of projects and contracting organizations, the adoption of measures necessary to insure prompt settlement of the suppliers' accounts, and

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control over the prompt presentation of bills for fulfilled work and services rendered.

The growth of the fixed capital of the national economy, the increase in profits and increased mobilization of internal resources raised the share of the contributions of the economic organizations themselves in the financing of capital investments. In 1950, 29.1 billion rubles were to be contributed by the state economic organizations for construction, or almost three times more than was contributed to the special banks in the prewar years. The amounts accumulated by Torgbank for the long-term credit fund of cooperative systems also increased. The organizational-economic strengthening of collective farms on the basis of the decisions of the Plenum of the Party's Central Committee of February 1947, the further struggle for strict observance of the Stalinist Charter of the Agricultural Artel, the realization of the three-year plan of development of collectivized livestock, and the consolidation of collective farms -- all this has tended to increase the money income of the collective farms and their real estate. The task of the Sel'khozbank now consists in attracting collective farm funds for capital investment purposes.

One major reserve in the further development of credit investments, especially in the case of Sel'khozbank, Torgbank and the Tsekombank system, is the full and prompt collection of outstanding loans.

In the postwar years the banks have expanded their credit links with the construction industry, but greater credit efficiency requires greater control over the use and speedier turnover of the working capital of contracting organizations and the unconditional repayment of loans on time.

Bank operations relating to long-term crediting of cooperative organizations and especially collective farms have also expanded. Alone during 1948, long-term credits totaling more than one billion rubles were granted to collective farms, and according to the plan, these credits were to amount to 3.8 billion rubles in 1950 (see A. G. Zverev, O gosudarstvennom byudzhete SSSR na 1950 god i ob ispolnenii gosudarstvennogo byudzheta SSSR za 1948 i 1949 gody /On the State Budget of the USSR for 1950 and on the Fulfillment of the State Budget of the USSR for 1948 and 1949/, Gospolitizdat, page 18). Credit links between Sel'khozbank and the collective farms are due to expand in the future. This will require on the part of Sel'khozbank greater aid to the collective farms in the matter of organizing their finances and constant checking over the specified use of loans and their prompt repayment.

The amount of long-term credits granted to the working people, mainly for residential construction, has greatly increased. In this connection, the Tsekombank system and Sel'khozbank face the task of checking over the use of the credited funds for their intended purpose and of taking measures designed to secure the extinction of the outstanding loans on time.

Greater demands are constantly being made on the level of economic work done by the investment banks. If the banks are to realize real

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financial control over the use of funds granted for capital investments, they must combine their operational functions of financing and crediting of the capital investments with constant study of the economic condition of the financed projects and contracting organizations and insure a careful check over their accountability and the documents that serve as a basis for financing.

As we have stated above, the investment banks are under the control of the Ministry of Finance USSR. According to the statute, the Ministry of Finance USSR "directs and controls the operations of the investment banks in the financing and crediting of capital investments and in attracting the contributions of the enterprises and economic organizations for that purpose; reviews and passes on for approval by the Council of Ministers USSR the charters of the investment banks, their credit plans, annual reports and balance statements, and the percentage rates and commission fees levied on their operations; exercises control over the specified use of state funds intended for the financing of capital investments, over the reduction of construction costs, over the observance of designs and estimates and financial discipline and over the strengthening of economic accountability and payment discipline in construction" (from the Statute on the Ministry of Finance USSR).

6. The Organizational Structure of the Investment Banks

The tasks and functions of the investment banks in their capacity as chief instruments of state financial control over capital investments also determine their organizational structure.

In accordance with Article 14 of the Constitution of the USSR, the direction of the monetary and credit system is a function of the higher organs of state power and state administration. The fact that the investment banks are under the control of the Ministry of Finance USSR insures uniformity of direction.

Prombank, Sel'khozbank, Torgbank and Tsekombank are all-union banks and carry out their functions in accordance with charters approved by the Council of Ministers USSR and instructions of the Ministry of Finance USSR. The organizational structure of Prombank, Sel'khozbank and Torgbank is q uite similar, but each one has its variations conditioned by the nature of the construction to be financed, the volume of financing, the location of the construction sites and so forth. The structure of the Tsekombank system is somewhat different.

In addition to their central offices in Moscow, Prombank, Sel'khozbank and Torgbank have provincial offices, branches and authorized agencies through which they finance construction. These banks have their offices especially in areas where their capital investments are concentrated. In all other areas, construction is financed through the account of the special banks in branches of the State Bank or another special bank. Cash operations of all special banks, except the municipal banks, are handled through the State Bank.

Prombank. The Prombank of the USSR is headed by a board of directors. The chairman of the board, his assistants and the other members of

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the board are named by the Council of Ministers USSR upon recommendation of the Minister of Finance USSR. The Prombank system consists of a number of links: the central office in Moscow; republic offices in the capitals of union republics (except the RSFSR and the Ukraine) and autonomous republics; kray and oblast offices, and branches and agencies attached to State Bank offices in a number of cities and rayons.

As a rule, only the republic, kray and oblast offices are under the jurisdiction of the central office, with the branches and agencies subordinated to the provincial offices. However, some branches and agencies that finance especially important projects are subordinated directly to the central office.

The managers of offices are named by the Minister of Finance USSR upon recommendation by the chairman of the board of Prombank, while the managers of branches and agencies are named by the chairman of the board.

The central office of Prombank is divided into industrial departments: the department for the financing of construction in the metallurgical and chemical industries, the department for the financing of construction in the machine-building industry and so forth. In addition to the industrial departments, the central office of Prombank includes functional departments: plans and economics, technical, central accounting department, operational, review and inspection, personnel, and so forth.

The organizational structure of the provincial offices and the main branches is also based on the industrial breakdown.

The financing and control work is handled by the departments (or work groups) corresponding to the leading branches of industry, transportation and communications. The provincial offices have planning-economic and technical departments (or sections or work groups) and the accounting department. In some of the small provincial offices and in most of the branches, there are no special departments (except for accounting) and both financing and control are handled by credit inspectors in cooperation with engineers. Agencies attached to State Bank branches sometimes include, in addition to the agent, groups of inspectors. The agent is responsible for preliminary and subsequent control over the construction projects, while all operational and accounting operations relating to the projects are handled by the State Bank offices themselves.

Sel'khozbank. The Sel'khozbank is headed by a board of directors. The chairman of the board, his assistants, and the other members are named by the Council of Ministers USSR upon recommendation of the Minister of Finance USSR. As in the case of Prombank, the apparatus of Sel'khozbank consists of a number of links: the central office, offices in the republics, krays and oblasts, and branches and agencies attached to State Bank Offices. The nature and large number of the clients of Sel'khozbank (collective farms, state farms, machine-tractor stations, and others) have necessitated the organization of a wideflung network of agencies.

The managers of republic offices are named by the Minister of Finance USSR upon recommendation of the chairman of the board of

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Sel'khozbank, the managers of kray and oblast offices are named by the chairman of the board and the managers of branches and agencies by the bank office managers.

The central office of Sel'khozbank includes the following main departments: for the financing of state agricultural enterprises, for the crediting of collective farms, for the crediting of individual borrowers, planning and economics, technical, operational, review, central accounting department, personnel, and others. Sel'khozbank provincial offices are similarly subdivided.

The Tsekombank System. The Central Municipal Bank is headed by a manager and his assistants named by the Council of Ministers USSR upon recommendation of the Minister of Finance USSR. However, in contrast to the other special banks, the Central Municipal Bank has only one provincial office -- the Ukrainian office. The financing and crediting of residential, municipal, cultural-social and administrative construction is handled through republic, kray and oblast municipal banks (and in Moscow through Mosgorbank), their branches and agencies.

The municipal banks at republic, kray and oblast levels are under the control of the Councils of Ministers of republics and the Executive Committees of kray and oblast Soviets of working people's deputies. To insure a uniform system, local municipal banks carry out their work on the basis of uniform rules and instructions approved by the Minister of Finance USSR; the credit plans of the municipal banks are reviewed by the Councils of Ministers of republics and the Executive Committees and are then passed on to the Tsekombank for approval; the latter also approves the annual and quarterly reports of these banks and reviews their operations.

The managers of republic municipal banks are named by the Minister of Finance USSR and the managers of kray and oblast municipal banks are named by the manager of Tsekombank.

The composition of the clientele and the nature of the operations of Tsekombank and the local municipal banks differ from those of the other investment banks and their organizational structure differs accordingly. The Tsekombank includes departments for the financing of residential and municipal construction, the financing of cultural-social construction, the crediting of individual residential construction, planning and economics, cost estimate control, inspection control, crediting and accounting operations, main accounting department, personnel, and so forth.

Torgbank. According to its new charter, Torgbank is headed by a board of directors, whose chairman, assistant chairmen and other members are named by the Council of Ministers USSR upon recommendation of the Minister of Finance USSR.

The Torgbank apparatus consists of the following links: the central office, offices at republic, kray and oblast levels, and agents attached to State Bank branches.

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Managers of republic offices are named by the Minister of Finance USSR and the managers of kray and oblast offices by the chairman of the board of Torgbank.

The head office of Torgbank is subdivided on an economic basis and includes a department for the financing of trade, a department for the financing of cooperatives, and so forth. In addition the head office includes functional subdivisions, such as a planning and economics department, an estimates control section, the main accounting department, and so forth. Torgbank provincial offices are organized in similar fashion.

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CHAPTER III

THE METHOD OF PLANNING CAPITAL INVESTMENTS AND THE CONTROL FUNCTIONS OF BANKS. THE FORMAL APPROVAL OF FINANCING.

1. The Method of Making Up and Approving Capital Investment Plans.

The rates of development of production in various branches of the national economy determine the volume of capital investments in those branches envisaged by the national economic plan. The capital construction plan thus forms a component of the national economic plan of the USSR.

The main tasks of planning capital investments are: setting the proper proportions in the development of individual branches of the national economy, insuring the rise of output envisaged by the economic plan, forming the necessary capacity reserves, insuring efficiency of the capital investments, the proper location of construction projects by regions and the further economic and cultural rise of the national republics, careful coordination with long-range plans and concentration of funds in key projects.

Capital investments go into new construction (factories, plants, mines, railroad lines, residential dwellings, and so forth), reconstruction and expansion of existing enterprises, restoration work (reconstruction of destroyed enterprises or buildings), and capital repair. Capital investments intended for capital repair of fixed capital are not included in the capital construction plan and are handled separately by the national economic plan.

Capital investments are used for construction and installation work, the acquisition of equipment, tools and implements included in fixed capital, and so forth.

Construction work includes the erection, rebuilding, expansion and restoration of all sorts of buildings (industrial, residential, cultural-social, commercial and storage) and installations (blast furnaces, mines, dams, bridges, etc); installation work includes the assembly and installation of technical, power-generating and other equipment.

In addition to outlays used for the creation and expansion of fixed capital (capital expansion outlays), capital investments also include outlays that have no effect on the growth of fixed capital, for example outlays for soil-improving and melioration work.

Capital investments are planned for specific purposes. The specific nature of outlays in various branches of the national economy is determined by the characteristic features of those branches. Characteristic of industry, for example, is the construction of new and the expansion of existing plants and factories, i.e. construction designed for production. In agriculture, capital investments are used chiefly for the acquisition of tractors and trucks, soil improvement and afforestation, swamp drainage, the formation of livestock herds and similar measures. Characteristic of trade and cooperatives are capital investments in the

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trade and storage network, the construction of public eating places, the organization of various types of handicrafts, and so forth. In residential and municipal investments, funds go chiefly into an expansion of housing, municipal improvements and so forth.

However, capital investments in various branches of the economy are not limited to the listed outlay categories characteristic of each branch. For example, the mere erection of industrial plants is not in itself sufficient in the construction of industrial enterprises. In most cases, especially when construction proceeds outside of cities, the workers and employees of the future enterprise must be provided with housing (housing construction), public baths and laundries (municipal construction), stores (trade and storage construction), children's creches, hospitals, clubs and so forth.

The capital construction plan approved annually by the Council of Ministers USSR as part of the national economic plan consists of a number of documents. In the first place, the plan sets the general volume of capital work throughout the economy of the USSR and the value of fixed capital to be put into operation. In addition, there is a plan for labor, a plan for the introduction of new technology and a plan for the supply of construction materials, equipment and other necessary material supplies.

Great importance is attached to the distribution of capital investments by union republics and by union and union-republic ministries and agencies.

The proper distribution of outlays among the branches of the national economy and the most rapid completion of projects under construction insures the proper proportion among output levels in the various branches. For example, the output level in the metallurgical industry, which is of decisive importance for the economy as a whole, depends mainly on the proper channeling of investments into the coal-mining industry.

The capital construction plans, in addition to being made up on an industrial basis by ministries and agencies, are also formulated on a regional basis, giving the distribution of capital work by union republics. The plan is set for each union republic as a whole and by republic ministries.

Since it attaches much importance to the rehabilitiation and expansion of housing, the Council of Ministers USSR approves separately within the capital construction plan a plan for housing construction and for the opening of new housing by union ministries and agencies and by union republics.

Approved in addition to capital construction plans for ministries as a whole are itemized lists of above-limit construction projects that contain detailed indicators for large and important projects, including the volume of work to be performed during the current year. These itemized lists include union, republic and local projects whose cost estimates are equal to or exceed the established limit.

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The limits for various branches of the economy are set by the Council of Ministers USSR. For example, for the construction of enterprises in ferrous metallurgy, the limit is 10 million rubles, for machine-building enterprises 5 million rubles and so forth.

Projects whose cost estimate is equal to or exceeds the established limit and projects that are included in the itemized lists of above-limit capital construction approved by the Council of Ministers USSR, irrespective of their cost, are called above-limit projects. All other projects not included in the itemized lists are called below-limit projects.

The inclusion of this or that project in the itemized lists approved by the Council of Ministers USSR is not always determined by the limit. In industry, for example, all new and reconstructed coal and oil-shale mines and open cuts under union-wide jurisdiction are included in the itemized lists irrespective of estimated cost.

In the field of residential, cultural-social and municipal construction, above-limit projects include houses, hospitals, sanatoriums, theaters, libraries, museums, scientific and educational institutions and so forth whose estimated cost exceeds 3.5 million rubles, and the construction of new water, sewage and steam-heating systems irrespective of their estimated cost.

In agriculture and forestry, above-limit projects include in particular irrigation and melioration projects exceeding 5 million rubles and newly organized state farms irrespective of their estimated cost.

In trade and storage, above-limit projects include, for example, grain elevators of an estimated cost exceeding 3 million rubles and trade enterprises of an estimated cost exceeding 2 million rubles.

When a cost estimate of the technical designs is made for a construction project as a whole (general cost estimate) or when a preliminary cost estimate is for an enterprise as a whole, the inclusion of the project in the itemized list of above-limit projects is based on the estimated cost of the project as a whole. In the construction of individual parts (separate installations, shops, buildings and so forth) of existing enterprises without general reconstruction of the entire enterprise, when instead of a general cost estimate such estimates are made only for the individual parts, the itemized lists of above-limit construction include only those parts whose estimated cost is not below the established limit.

With the aim of ending all undesigned and unestimated construction, the government has prohibited the inclusion in above-limit lists of projects that lack the proper designs and cost estimates.

Itemized lists of above-limit capital construction include the following data for each project: the year of the start and completion of construction; the estimated cost of the project; the estimated cost of work and fixed capital completed and put into operation prior to the

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start of the plan year; the volume of work planned for the plan year; amount of fixed capital to be put into operation in the course of the plan year, its capacity, cost and quarterly completion schedule.

Itemized lists of below-limit projects are approved as a rule by the chiefs of main administration of ministries within the limits of the capital construction plan for below-limit construction, which is approved by the Council of Ministers USSR for a given ministry and is then distributed among the main administrations.

Itemized lists of projects under republic and local jurisdiction, whose estimated cost is below the limits set by the Council of Ministers USSR, are approved in a manner prescribed by the Councils of Ministers of union republics.

The capital construction plan is thus approved for the national economy as a whole and for individual ministries and union republics. The plan is further broken down into construction and installation work, the cost of equipment and other types of work and outlays.

The capital construction plan then forms the basis for the plans of the construction industry, labor, the supply of material resources to construction and the reduction of construction costs.

The realization of the capital construction plan and the placing into operation of new production capacities requires further industrialization of the construction industry. The approval of capital construction plans and itemized lists for client ministries is therefore associated with the assignment to each project of the volume of construction and installation work that is to be performed by contracting organizations subordinated to the Ministry of Construction of Heavy Industry Enterprises and to the Ministry of Construction of Machine-Building Enterprises. Also subject to approval is the volume of capital investments directed into the fixed capital of the construction industry, which is designed to supply the contracting organizations with housing, auxiliary enterprises, construction machinery, means of transportation and so forth.

Subject to approval as part of the national economic plan for construction are annual plans for labor for each union and union-republic ministry and union republic. These plans are made up on the basis of the planned labor productivity rise to be achieved through the introduction of progressive output norms, the mechanization of labor-consuming operations and the use of mass-assembly methods.

Great importance is attached to the formulation of plans for the introduction of new technology into construction. These plans are designed to expand the use of new production materials, improved construction designs, advanced construction and installation methods and the use of new and perfected construction machinery and equipment.

The successful fulfillment of the capital construction plans depends to a large degree on the proper and prompt supply of the construction sites with equipment and construction materials. The plans

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set up for that purpose take account of equipment and materials present at the site at the beginning of the year and to be used in the course of the plan year and the normal inventory to remain at the end of the plan year. These data then determine the supply plan for new equipment and materials. It is quite evident that the plans for the supply of equipment and construction materials must be fully coordinated with the capital construction plans and the project completion schedules by ministries and individual construction projects.

Party and government are devoting serious attention to the matter of reducing construction costs. The plans for the reduction of construction costs therefore not only envisage the plan for construction as a whole, but the reduction of costs in individual elements of construction, such as the speeding of construction time, improvement of work organization, rise in labor productivity, labor-saving devices, economical use of construction materials, reduction of overhead outlays and the elimination of nonproductive losses in production.

Capital construction plans are approved on an annual basis with a quarterly breakdown.

In accordance with the national economic plan, provision is made in the state budget of the USSR for funds for the financing of capital investments (and for additional working capital in construction) by individual ministries, agencies and union republics. Together with the volume of budgetary resources, the plan sets the amount of funds to be contributed for capital investments by the economic organizations themselves.

The formulation of the annual capital construction plans of ministries and agencies is preceded by preliminary government approval of the total volumes (limits) of capital construction. On the basis of these data and using plan materials received from enterprises and projects (itemized lists and so forth), the ministries, agencies and Councils of Ministers of union republics then work out the capital construction draft plans and present them for approval to the Council of Ministers USSR.

The annual capital construction plans and terms of completion approved by the Council of Ministers USSR for each above-limit project are then communicated by the ministries and agencies to each project (with separate indicators for housing construction). At the same time, ministries and agencies distribute the appropriations for below-limit construction among the main administrations and the latter then pass them on to each below-limit project (with a statement of the specific purpose of each amount.)

On the basis of the capital construction plan approved for the union republics, the Councils of Ministers of union republics break down the volume of capital construction by branches of the economy subordinated to the republic ministries. Each ministry in turn breaks down the plan into republic and local construction. In the case of local construction, the Councils of Ministers of the union republics approve capital construction by oblasts, krays and autonomous republics.

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Changes in capital construction plans in the course of their fulfillment can be made only with permission of the Council of Ministers USSR. As an exception, ministries are given the right to redistribute appropriations of the annual plan among individual above-limit projects, provided the reduction in total appropriations for any given project does not exceed 10 percent of the annual plan and the reduction in construction and installation work does not exceed 6 percent of the annual plan. An increase in the plan of below-limit capital construction at the expense of above-limit capital construction is prohibited.

2. The Method of Formal Approval of Project Financing

Proper approval of project financing is one of the chief functions of the investment banks.

Before financing is attempted, the bank branch must be certain that the project is part of the state capital construction plan and has an approved list of construction items for the current year. The law prohibits undesigned and unestimated construction and the bank branch must first make certain that the project has a properly approved design and estimates dossier. Finally, before funds are granted, the amount and sources of financing must be known.

For proper approval of project financing, i.e. for granting the project the right to receive funds, the branch bank must have in its possession the capital construction plan (Form 7), the annual itemized list of capital construction by construction items and outlays (Form 1), a certificate on the approval of designs and estimates (Form 6), a copy of the general cost estimate or a copy of the cost estimates for individual construction items (in the absence of a general estimate); the limit of construction financing (Form 5).

The Capital Construction Plan. The annual capital construction plan is the basic document confirming the inclusion of the project in the state plan and granting the right to carry on construction in the current year in the amount and for the specific purpose stated in the plan. Without an annual capital construction plan, the branch banks cannot approve the financing of projects.

After the approval of the annual national economic plan by the Council of Ministers USSR, ministries and agencies pass on the annual capital construction plan broken down by main administrations and projects to the appropriate bank. The ministries of union republics (except the RSFSR) present these plans to the corresponding bank offices. As for projects of local importance, these plans are presented to the bank offices by the appropriate departments (administrations) of the Executive Committees of Soviets of working people's deputies.

The annual capital construction plans approved for individual ministries and agencies contain special housing construction provisions for the ministry as a whole and for individual projects.

The banks compare the plans furnished by the ministries with the plans approved by the Council of Ministers USSR. In case of discrepan-

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cies, the bank returns Form 7 to the ministry for the necessary corrections.

The bank branches receive the annual capital construction plans (Form 7) for above-limit projects from the head office and the plans for below-limit projects from the head office or from the appropriate office, depending on the authority that has approved the below-limit construction projects.

The capital construction plans (Form 7) indicate whether the project is below or above limit. However, the bank branch verifies independently on the basis of a certificate (Form 6) received from the project whether or not the project belongs to the above-limit category. If the project is erroneously listed in Form 7 as a below-limit project and its estimated cost exceeds the established limit, the branch so informs its head office and suspends all steps leading to approval of financing pending receipt of instructions.

The Annual Itemized List of Capital Work by Individual Items and Outlays. The itemized construction lists approved by the Council of Ministers USSR include both construction projects as a whole and the more important items to be put into operation during the plan year (blast furnaces, rolling mills, power plants, housing and so forth). This list, however, does not include all items on which construction is to proceed. If the enterprise is to be completed and put into operation as rapidly as possible, construction must be carried on according to plan not only on the main items, but also on auxiliary construction items. The document that lists the total annual plan for the project as a whole and for all items within the project is the approved annual itemized list of capital work by individual items and outlays (Form 1), which the project must submit to the bank before financing can be approved.

This itemized list includes the complete estimated cost of all items, the volume of work completed since the start of construction until the start of the plan year (in cost estimate prices), and the volume of work to be performed during the current year on each item, with a breakdown of that work into construction work, installation work and the cost of equipment. The itemized list also includes the amount of construction and installation work to be performed by contractors; this makes it possible to compare the volume of work listed in contract agreements with the volume of work listed in the itemized lists.

The itemized list includes only those items due for construction during the given year, and not all items forming part of the general cost estimate of the project. The items are listed in the order and with the nomenclature used in the general cost estimate. In the case of projects that are financed on the basis of cost estimates for individual items, the itemized list includes items for which separate cost estimates have been made.

The itemized lists of projects being financed on the basis of a general cost estimate contain the total estimated cost of the project and the estimated cost of work completed by the start of the plan year.

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This makes it possible to determine the estimated cost of the rest of the project.

Form No. 1

Ministry of Machine-Tool Building

Main Administration .....

Project A

Submitted Once a Year to the Financing Branch Bank

Approved:

Chief of the Main Administration
(signature)

13 January 1950
(date)

1. Total estimated cost of project
   40,240,000 rubles

2. Estimated cost of work completed prior to the start of the year
   25,780,000 rubles

3. Work program approved for the current year
   8,600,000 rubles

This is filled out only for projects that have general cost estimates

ANNUAL ITEMIZED LIST OF CAPITAL WORK FOR 1950 BY ITEMS AND OUTLAYS
(in thousands of rubles)

Items and Outlays	Total estimated cost according to the cost estimate	Completed prior to the start of the year	Estimated cost of annual work program			
			Total	including Construction work	Installation work	Equipment
1. Main building	10,500	8,300	2,200	1,360	295	370
2. Designing shop	3,030	1,930	1,100	900	--	--
3. Foundry shop	5,490	4,490	1,000	300	200	500
4. Assembly shop	2,300	--	1,105	1,105	--	--
5. Compressor station	1,135	635	500	100	90	310
6. Warehouse for finished products	285	45	240	240	--	--
7. Repair shop	2,440	2,040	400	--	100	300
8. Laying of high-voltage cables	150	--	150	150	--	--
9. Water lines	350	100	250	250	--	--
10. Residential House No. 4	2,115	1,015	1,100	1,000	--	--
11. Dining Room and Club	1,250	--	555	555	--	--
			8,600	5,960	685	1,480

To be performed by contractors:
Construction work -- 5,960,000 rubles
Installation work -- 685,000 rubles

Director of Enterprise
(signature)

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Itemized lists of above-limit construction are approved by the chief of the main administration to which the project is subordinated; itemized lists of local construction are approved by the chief of the department (administration) of the Executive Committee of the oblast Soviet of working people's deputies; and itemized lists of below-limit construction are approved by the director of construction or of the enterprise.

Having received the itemized list from the project, the branch bank verifies the proper approval of the itemized list; the proper documentation of all listed items with proper designs and estimates; and agreement between the total amount of outlays (including housing) and the itemized list of the annual capital construction plan (Form 7).

If the itemized list has not been properly approved, the branch bank will not finance the project until a new, properly approved itemized list has been submitted. If any of the other requirements relating to the itemized list are not fulfilled the branch bank will not hold up financing but will set a time limit for the project to make the necessary corrections. Until such corrections have been made, the project will be financed within the terms of the annual plan only for items that are properly documented with designs and estimates.

The itemized lists may meet all the requirements listed above and still require corrections designed to insure the proper destination of funds and the proper distribution of appropriations among the various items. Therefore the branch banks do not limit themselves to a formal check of the itemized lists, but also analyze their substance.

The main condition for the successful fulfillment of the capital construction plan and the completion schedule of new production capacities is the concentration of material and monetary resources and labor in key construction items.

In its decisions, the government has repeatedly stressed the inadmissibility of scattering monetary and material resources over a large number of items.

In analyzing the itemized list, the branch bank must verify in the first place whether funds are being scattered over a large number of items or whether appropriations are being concentrated on the financing of key shops and installations that are due to be completed on schedule and will serve as additional production capacities. In making this check, the branch banks use the lists of key construction items (transmitted to them from their head office) approved by the Council of Ministers USSR for the given year and the reports of the projects themselves regarding the status of incompleted capital investments.

The practice has been that some projects in making up the itemized lists and presenting them for approval do not assign sufficient appropriations to items that should be completed in the current year or to auxiliary items (water supply, power plant and so forth) essential for the start of normal production. Some enterprises, instead of providing funds in the itemized lists for the rapid completion of previously

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started items and thus reducing the number of incompleted capital investments, plan constructi n on a number of new items that would not be completed for some time and thus would immobilize the state's funds.

In comparing the data on the state of the incompleted capital investments with the itemized lists, the branch banks establish which of the incompleted items have not been included in the current itemized list and the reason for their omission. At the same time the branches determine the amount of appropriations necessary for the rapid completion of these items and make the appropriate suggestions for changes in the itemized lists.

The banks make certain that all key items listed by the national economic plan are included in the itemized lists and are provided with sufficient appropriations; when necessary, the banks require the redistribution of the appropriations among individual items to achieve that aim.

In the course of their check, the branch banks also ascertain whether certain outlays listed in the itemized lists should actually be financed at the expense of appropriations for centralized (limited) capital investments. For example, an itemized list may contain outlays for capital repairs, which should be financed under separate provisions, or it may contain outlays for the purchase of furniture, office equipment and other goods that should be financed at the expense of non-centralized (extra-limit) capital investments. In such cases, the branch bank sees to it that the illegal outlays are omitted from the itemized lists.

Also subject to correction are itemized lists of above-limit projects that include appropriations for the purchase of means of transportation for the needs of the existing enterprise, since such outlays should be financed from below-limit appropriations.

Following their analysis and check of the itemized lists, the branch banks inform the projects of the required corrections. If the projects refuse to make the suggested corrections, the branch bank so informs its head office without holding up the financing procedure. The head office will then reach an agreement regarding the corrections with the appropriate ministry or agency.

The Certificate on the Approval of Designs and Estimates. We have noted above that banks may finance only those projects and items that have a properly approved designs and estimates dossier. Before approving project financing, the branch banks must first make certain that such a dossier exists. For this purpose, the projects must supply the branch banks with a copy of the properly approved general cost estimate of the technical designs and a certificate on the approval of the designs and cost estimates (Form 6). If a project is to be financed on the basis of designs and estimates for individual construction items, copies of these individual cost estimates must be supplied instead of the general estimate.

The project that does have a general cost estimate lists in its

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certificate (Form 6) the total cost estimate of the project without separate estimates for individual items. If the project is being financed on the basis of designs and estimates for individual construction items, the certificate must list all permanent and temporary items on which construction is to proceed during the current year.

Upon receipt of these certificates, the banks check their proper execution and ascertain whether the designs and estimates dossier has been properly approved.

Before approving financing of the projects, the banks verify on the spot whether the projects do in fact possess approved designs and estimates for each item in the general cost estimate and whether the estimated cost of the item agrees with the estimated cost listed in the general estimate. If the figures disagree, the branch bank without holding up the financing procedure gives the project a time limit for making the proper corrections.

Before the technical design and the general cost estimate of a project has been approved, outlays for preparatory work may be approved on the basis of an approved draft plan and a preliminary cost estimate. For the approval of the financing of such outlays, the bank must be supplied with a certificate (Form 6) confirming the existence of a preliminary draft plan and a preliminary cost estimate for these outlays. The certificate must also list the construction items affected by the preliminary operations (railroad spurs, quarries, auxiliary enterprises and so forth) and data on the approval of designs and estimates for these preliminary items or, if necessary, individual preliminary cost estimates.

The designs and estimates dossier of a restoration project varies somewhat from the dossier of a new construction project.

In the appropriate cases, the bank should receive together with the certificate on Form 6 a separate certificate stating that the enterprise is being restored to its former capacity (before destruction).

Some projects are granted a grace period for the approval of their designs and estimates without prejudice to their normal initial operations. Such projects need not submit certificates on Form 6 and are financed within the limits of the appropriations listed in the itemized lists (Form 1).

However, after expiration of the grace period, the branch banks are expected to receive the certificates on Form 6.

The Limits of Construction Financing. After the bank has received the documents confirming the inclusion of the project in the state plan and the approval of designs and estimates, it can still not approve the financing of the project since it does not know from what sources and within which limits the project is to be financed. It will have this information only upon receipt of the financing limit (Form 5) from its head office or the appropriate provincial office.

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These limits state the total funds assigned to the project for the given year, with a breakdown by quarters and by financing sources.

The financing sources stated in Form 5 may fall into two groups.

The first group includes funds that are received by the bank, including funds from state and local budgets, amortization deductions, profits, funds derived from the incidental mining of minerals or from the sale of goods removed from existing enterprises (Lines 2-9).

The second group includes funds that are as a rule not deposited in the bank, but tend to reduce the need for bank financing: planned accumulations of a construction project carried out by the economic method; funds derived from the mobilization of internal resources and other sources; amortization of the fixed capital of the construction project; materials received at no cost, and so forth (Lines 10-13).

The total amount allocated to capital construction (Line 14 of the limit document) should be in accord with the capital construction plan approved for the project (Form 7); discrepancies are permitted only when the government decides to finance capital construction on a given project in excess of the annual plan.

[See Form No. 5 next page]

Funds granted on the basis of the financing limits are paid within the quarterly appropriation limits stated in Form 5. Funds that have not been completely spent in a given quarter may be used in the course of the following quarters of that year.

No funds are advanced to projects on the following quarter, but additional funds from the appropriations for the following quarter may be paid in the form of a bonus to projects that overfulfill their capital construction plan.

Some banks follow special rules in approving the financing of projects. For example, Tsekombank does not send its municipal banks separate capital construction plans (Form 7) and financing limits (Form 5), but combines these two into a single form called "Annual Credit Authorization" (Form 4).

The volume of capital construction in Form 4 is listed as a total amount with a breakdown into construction and installation work, equipment and other outlays. With regard to the sources of financing, this form does not differ from the financing limit (Form 5).

After all documents have been checked, the branch bank gives its accounting department a written order to start the financing of the project.

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Form No. 5

Prombank of the USSR

Operational Department

Moscow

No. 3582 by mail/telegraph

15 January 1950

To the Moscow City Office of Prombank
Moscow

Copy to: .....

in .....

FINANCING LIMIT FOR 1950

1. Name: Project A
of the ..... Trust/Main Administration
of the Ministry of Machine-Tool Building

(in thousands of rubles)

Sources	Limit set for 1950	including First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2. Budgetary appropriations	6,320	1,314	1,550	1,846	1,610
Industry's Contributions					
3-5. Centralized	800	160	200	240	200
Local					
6. Amortization	370	70	90	105	105
7. Profits	680	140	170	210	160
8. Others	--	--	--	--	--
9. Total financing limit	8,170	1,684	2,010	2,401	2,075
Mobilization of Internal Resources					
10. Total (mobilization /, immobilization -)	/380	/76	/95	/115	/94
11. Including working assets (increase/, reduction -)	-450	-100	-110	-125	-115
12. Economies derived from reduction of construction costs		[blank]			
13. Other Sources	50	10	12	15	13
14. Total amount allocated to capital investment	8,600	1,770	2,117	2,531	2,182

Chief of Department (signature)

Chief Bookkeeper (signature)

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Prombank
Moscow City Office

Order to Accounting Department

17 January 1950

Start the financing of project A of the Ministry of Machine-Tool Building, account number 30524.

Construction method -- contracting.

Documentary basis: Form 7 - received 4 January 1950

Form 5 - received 15 January 1950

Form 1 - received 17 January 1950

Form 6 - received 17 January 1950

Office Manager
(signature)

Chief of the Department for the Financing of Machine-Building and Power Plant Construction Projects
(signature)

Upon receipt from the project of some additional documents required for the opening of an account (request for the opening of an account, list of persons authorized to sign monetary documents, samples of the signatures of these persons, and so forth), the bank's accounting department is then ready to start financing on the basis of the written order.

Annual capital construction plans, annual itemized lists, certificates of the approval of designs and estimates and financing limits are the prerequisites without which financing cannot be authorized, irrespective of whether construction is being done by the contracting or the economic method. In the case of contracting, the client must also submit to the branch bank in addition to the other documents the contract agreement, and in the case of construction by the economic method, the enterprise must furnish the bank with a list of the construction operations (Form 3) being completed by the economic method.

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CHAPTER IV

BANK CONTROL OVER THE DESIGNS AND ESTIMATES DOSSIER AND THE ESTIMATED COST OF THE CONSTRUCTION PROJECT

1. The Importance of Designs and Estimates in Capital Construction and the Role of Bank Control

No construction project can be carried out without the preliminary formulation of a design of the future building or installation. Depending on the nature and the complexity of the project, this design can be more or less detailed and contain a greater or lesser number of calculations, drawings and plans. But in all cases the construction workers must have a clear, unequivocal and detailed concept of the future building or installation. Such a concept is provided by the design of the construction project, which usually takes the form of a graphic presentation.

K. Marx has said: "The spider performs operations that recall the weaver's operations and the bee in constructing its honeycomb puts some architects to shame. But even the worst architect differs from the best bee from the very start in having constructed the honeycomb in his mind before attempting its actual construction. The result yielded by the labor process is the one that the worker conceived at the start of the process, i.e. ideally" (K. Marx, Kapital, Vol 1, 1949, page 185).

Under socialism, where planning is the indisputable law of economic development, designs assume an even greater role and importance since capital construction performed by Socialist organizations has direct social usefulness, serves the development of the national economy, improves the material and living conditions of the broad masses of the working people and insures progress along the road to communism. In a Socialist economy, the designs of buildings and installations represent in concrete form the state plan for the expanding reproduction of fixed capital of the Socialist enterprises and organizations.

In addition to the designs, great importance is also attached to the cost estimates made on the basis of these designs. These estimates reflect the size of the socially necessary outlays and give in money terms the cost of the planned construction. The cost estimate is an inseparable part of the construction design and is made up only after all basic technical questions have been resolved in the planning process. To the extent that a regime of economics and cost reduction is an inherent part of Socialist economics, rational designing decisions and economical cost estimates are basic requirements of the technical dossier in the field of capital construction.

The significance of the strengthening of designs and estimates discipline in construction has been expressed in a number of government decisions that prohibit investment banks from financing projects that lack the properly approved designs and estimates.

Party and government in their directives on improvement of the construction business and reduction of construction costs have

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repeatedly stressed the importance of the cost estimate as a document that sets the cost of construction, serves as a basis for settling accounts between clients and contractors and provides the start of economic accountability in construction.

In 1938, the government approved "Instructions for Making Up Designs and Estimates for Industrial Construction", which listed the components and the methods of making up and approving the designs and estimates dossier for the construction of industrial enterprises. In 1939, the People's Commissariat of Construction (upon instructions of the government) approved for compulsory use by all Soviet organizations "Instructions for Making Up Designs and Estimates for the Construction of Residential, Cultural-Social, Municipal, Commercial and other Non-Industrial Buildings."

The special construction conditions during the Great Patriotic War required certain temporary changes in the make-up of the technical dossier. However, after the victorious conclusion of the war and the return to peaceful labor, the question of strengthening designs and estimates discipline in construction came once again to the fore. In accordance with the Law on the Five-Year Plan of Reconstruction and Development of the National Economy of the USSR for 1946-1950, construction work is once again being carried out on the basis of approved technical designs and cost estimates.

A number of government decisions on problems of construction, adopted in May 1950, were directly designed to bring further order into the planning business and remove a number of serious deficiencies that had given rise to excesses in designs and cost estimates and had produced a rise in construction costs.

In this connection it should be emphasized that a reduction of construction costs depends to a large extent on the proper way of making designing decisions and on the economical formulation of cost estimates. Any excesses in designs and estimates lead directly to a higher cost of construction and a nonrational expenditure of state funds.

For that reason, the government since 1 July 1950 has required the State Committee of the Council of Ministers USSR dealing with construction and the Ministry of Urban Construction USSR to make a check of the designs and estimates dossier of all projects for which the estimated cost exceeds the limits set by the government. Under this arrangement the Ministry of Urban Construction USSR checks the designs and estimates dossier of residential-municipal, cultural-social and other civil construction projects in cities, while the State Committee of the Council of Ministers of the USSR handles all other construction (industrial, transportation, agricultural and so forth).

Bank control over designs and estimates dossiers in construction then involves mainly a compulsory check of the existence of the properly approved designs and estimates for the projects included in the capital construction plan for the current year. The investment banks are not permitted to finance projects that are not supplied with the required

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technical dossier. Also of major importance is bank control over the quality of the cost estimates. Such control is effected by the special banks chiefly for those projects whose dossier has not been verified by the State Committee of the Council of Ministers USSR dealing with construction or the Minister of Urban Construction USSR.

2. Make-up and Method of Approval of the Designs and Estimates Dossier

In accordance with existing legislation, the designs and estimates dossier for construction is worked out by special designing institutes (Gipro) and designing organizations.

The former method of paying for designing and research work on a contract basis was abrogated 1 July 1950. Designing organizations under union-wide jurisdiction are now being maintained with funds from the union budget and designing organizations under republic and local jurisdiction are being maintained at the expense of republic and local budgets.

Annual plans for the work of designing organizations are approved by the Council of Ministers USSR together with the annual capital construction plans. Draft plans for these organizations are made up by the ministries and agencies of the USSR and to the Councils of Ministers of union republics and are submitted to Gosplan of the USSR for a preliminary check.

The work plans of the designing organizations list the volume, cost and nature of design and research work for major construction projects. The plans list not only work to be done for the ministry that has jurisdiction over the given designing organization but also work to be done for other ministries and agencies on their orders.

Construction designs are made up on the basis of specifications supplied by the clients in three stages, each of which has its significance: design specifications, the technical design and the blueprints.

In the first planning stage -- the formulation of designing specifications -- the technical feasibility and the economic advisability of the proposed project in the given site and within the proposed time period is assessed. The designing specifications include the site of the construction project, the capacity of the future enterprise and the nature of its output; the components of the enterprise and the types of planned main buildings and installations, the production links between the enterprise, its sources of raw materials, fuel, water, power, transportation, housing and so forth. The designing specifications include as a rule a preliminary general plan of the enterprise. Designing specifications for residential and other civil construction list in addition the basic architectural features of the designed buildings and installations. At this stage of the designing process the preliminary cost of the construction project is calculated.

After the planning specifications have been approved, the basic document for any construction project is worked out. That is the technical design which treats the basic technical questions and sets the

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technical and economic indicators of the projected enterprise, building, or installation. The technical design is a complex document; in addition to the general plan of the enterprise it includes the basic technical decisions relating to all parts of the designed construction project: production, architectural design, power supply, sewage system, transportation and so forth. The technical design must be sufficiently detailed to make it possible to order in advance all the required equipment and prefabricated parts for the project.

A general cost estimate setting the final cost of the given construction project is worked out together with the technical design and is approved with it. The cost estimate that accompanies the technical design may not exceed, except with permission of the Council of Ministers USSR, the preliminary cost of the project determined on the basis of the designing specifications approved by the government.

In the case of large projects that are to be put into operation in stages, technical designs may be worked out separately for each stage. In the case, the technical design and the general cost estimate of the first stage must be accompanied by a general plan and a preliminary cost estimate of the entire project.

In making up technical design, maximum use should be made of standard designs or previously completed designs. This applies above all to auxiliary construction items (repair and machine shops, transformer stations, garages and so forth) and to other simple and temporary installations.

In the absence of standard designs or previously completed designs, the designs and estimates dossier for these items may be made up in a somewhat abbreviated form, including simply the calculation of the output capacity, the dimensions of the buildings and installations and the preliminary cost estimate. The same applies to residential and cultural-social construction items that form part of an industrial construction project. In this case the design simply lists the number, dimensions, area and types of buildings.

Once the technical design has been approved and the construction equipment has been ordered, the blueprints are made up. These contain detailed graphic materials required for the direct execution of the construction project on the spot.

No special cost estimate is made on the basis of the blueprints and the cost estimate that accompanies the technical design remains in force as the document determining the cost of the planned construction. However, the cost estimate or the preliminary estimate made on the basis of the technical design may be refined on the basis of the volume of work, the specifications of equipment and so forth that emerge from the blueprints. Such adjustments may be made only within the limit of the total amount of the approved general cost estimate of the project and must confine themselves to the rates of the approved cost estimate that accompanies the technical design.

Existing legislation provides a simplified make-up of the designs

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and estimates dossier for certain construction items. For example, in the case of construction of individual installations, shops, or buildings in existing enterprises that are not subject to general reconstruction, no complex technical design and general cost estimate is required. In those cases, designing specifications, technical designs and cost estimates need be made up only for each of the individual items to be built or reconstructed. Still subject to approval, however, are all basic technical and economic indicators that determine the production links between each of the designed items and the existing principal and auxiliary shops of the enterprise.

An abbreviated designs and estimates dossier is also permissible for residential, cultural-social, commercial, municipal and other nonindustrial buildings of less than 3,000 cubic meters in volume. Instead of the usual three-stage procedure, only two stages are required for such buildings: the designing specifications with a preliminary cost estimate and the blueprints. In certain cases, this procedure may be extended with the Minister's permission to simple nonindustrial construction items of as much as 8,000 cubic meters in volume.

Designs and estimates for restoration work are also made up in abbreviated form. For example, an enterprise or installation that is part of the above-limit construction program and is being restored with some expansion or reconstruction should have designing specifications and a preliminary cost estimate for the construction as a whole, and, for the individual restored items, technical designs with cost estimates or, in appropriate cases, simply preliminary cost estimates. In case of insignificant destruction, the Minister has the right to replace the technical design with a simple description of the work to be done and a cost estimate based on unit prices.

If an enterprise or installation is to be restored to its former capacity as part of the above-limit construction program, no designing specifications are required, but a preliminary cost estimate of all outlays involved in the restoration must be supplied. With the Minister's permission, moreover, the technical designs of the principal construction items may be combined with the blueprints.

The designs and estimates dossier for the restoration of enterprises or installations under the below-limit construction program includes the general preliminary cost estimate and, for individual restored items, technical designs with cost estimates or, in appropriate cases, simply preliminary cost estimates. In case of insignificant destruction, the technical designs may be replaced by simple descriptions of the work to be done and cost estimate based on unit prices.

In the postwar period, a number of government decisions have simplified the make-up of the designs and estimates dossier for projects in certain branches of the national economy. Specifically in the case of the construction of new ferrous metallurgical enterprises, present regulations require designing specifications and a preliminary cost estimate only for the enterprise as a whole and for individual construction items simply the technical designs with their cost

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estimates (or preliminary estimates). The planning of the construction of coal mines and oil wells that can be based on standard designs and standard decisions is also limited to two stages. The usual three-stage planning procedure has been kept by the Ministries of the Coal and Oil Industries only for new types of plants and especially complicated projects listed each year by the ministries. A simplified form of the designs and estimates dossier has also been permitted by the government for certain construction items of the Ministry of Railroads, projects of the synthetic fuels and gas industry and so forth.

The decisions of the Council of Ministers USSR designed to simplify the designs and estimates dossier have been motivated by a desire to reduce the excessive bulk of the technical designs of industrial projects, to make greater use of standard designs and decisions, to rationalize further the matter of making cost estimates and so forth.

It is clear from the foregoing that cost estimates are made at various stages of the designing process with varying degrees of precision and that the make-up, types and content of the cost estimates vary accordingly.

A preliminary cost estimate is made up in the designing specification stage. This estimate sets the preliminary cost of the construction project as a whole, and in some cases of the principal individual construction items. This preliminary estimate is based as a rule on the experience of designing and building similar enterprises, buildings and installations, without detailed determination of the estimated cost of each of the designed items. The preliminary cost estimate is usually based on the indicators of the outlay of funds for the corresponding aggregated measure: a unit of productive capacity of the enterprise as a whole or of the principal component shops; a cubic meter of the designed building; a kilometer of railroad track, transmission line and so forth.

The same procedure and the same degree of approximation is used in the technical designing stage in making up preliminary cost estimates for large construction projects as a whole when such projects are to be built in stages.

The final cost estimate of the designed project is made up in the technical designing stage. The basis for this estimate is: (1) the volume of work and the specifications of the required equipment envisaged by the technical design; (2) the calculation of the cost of construction materials, goods, semi-manufactured items and parts, based on the current state purchase prices of the supplier, the established surcharges of supply and distribution organs, outlays for the amortization of shipping containers, transportation outlays based on current freight rates from the supplier to the construction site, the established processing and storage rates of the construction organizations (a similar method is used to determine the cost of the equipment envisaged by the technical design); (3) the calculation of the estimated cost of the operation of the construction machinery (machine-shifts), based on aggregated cost estimate norm handbooks and the prices established for the given project (account being taken of the correction coefficients

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for wages and outlays for power, compressed air and so forth), (4) the existing wage scale for piece workers with the corresponding correction coefficients; (5) estimated norms of the outlay of materials, labor and machine-shifts per unit of work according to the corresponding aggregated cost estimate norm handbooks; (6) the current norms of overhead outlays and so forth.

The primary document used in determining the cost per unit of each of the planned construction elements or types of construction work is the unit rate. Unit rates are based on the estimated outlay norms of materials, labor and machine-shifts, which in turn are set by the corresponding handbooks of aggregated cost estimate norms.

The unit rate document includes construction work envisaged by the technical design, including special construction work. No unit rates are computed for the installation of equipment and the estimated cost of this type of work is based directly on the rate books for the installation of equipment.

The total estimated cost of the construction project is determined by the cost estimate of the technical designs which is the summary of all estimated outlays and is made up in a regularly established form.

Each item of the general cost estimate must be justified by appended summary cost estimates or preliminary estimates for individual construction items and outlays. Summary cost estimates or preliminary estimates for individual construction items include all types of work and outlays for each construction item (workshop, building, installation and so forth) or for each type of outlay listed in the general cost estimate (preparation of the construction site, maintenance of the director's office of the enterprise under construction and so forth). Summary cost estimates or preliminary estimates for individual items must in turn be justified by cost estimates or preliminary estimates for individual types of operations and outlays on each construction item: construction work, inside water lines, inside plumbing, heating, ventilation, foundations for the equipment, the equipment and its installation (separately for the principal types of equipment), production implements and tools, and so forth.

All types of cost estimates -- whether the general cost estimate, the summary estimate for each construction item or the breakdown by individual types of operations and outlays -- includes technical and economic indicators in the appropriate units for appraisal of the efficiency and rationality of the design alternatives. These indicators also serve as the initial data for determining the approximate cost of similar items for which no technical designs are being made up.

The general cost estimate and the summary cost estimate for each construction item may include preliminary estimates (instead of the final cost estimates) for construction items and outlays listed in the "Instructions for Making Up Designs and Estimates for Industrial Construction" and in the "Instructions for Making Up Designs and Estimates for the Construction of Residential, Cultural-Social, Municipal, Commercial and other Nonindustrial Buildings". Depending on the nature of the work and

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the outlays, these preliminary estimates may be based on the following data: aggregated indicators per unit of work; aggregated measures using the analogy of other designed and completed construction items; the prices of current price books, and so forth.

Cost estimates for projects that are being realized on the basis of designs and estimates for individual construction items are made up by the above procedure, but without a general cost estimate for the construction project as a whole.

Effective 1 July 1950, a new procedure has been promulgated for approving designing specifications and preliminary cost estimates for newly started construction projects and for current projects that lack approved designing specifications.

Under the new procedure, the Council of Ministers USSR (after a preliminary review and decision by the State Committee of the Council of Ministers USSR dealing with construction or, in the appropriate case, by the Ministry of Urban Construction USSR) approves designing specifications and preliminary cost estimates for all projects whose estimated cost exceeds the following limits:

25 million rubles -- for industrial enterprises under union jurisdiction of the metallurgical, coal, oil, chemical and machine-building industries, the construction materials industry, the lumber and paper industry, power stations and power networks, railroad transportation and the ocean-going fleet;

10 million rubles -- for industrial enterprises under union jurisdiction of the other branches, the river fleet, communications, road construction, agricultural enterprises, irrigation and melioration systems;

5 million rubles -- for residential-municipal and cultural-social construction, the construction of commercial enterprises and other items under union jurisdiction, also industrial, transportation and agricultural enterprises, irrigation and melioration systems, residential-municipal, commercial, cultural-social and other construction under republic and local jurisdiction.

Designing specifications and preliminary cost estimates for other projects are approved by ministers and the heads of agencies of the USSR in the case of construction under union jurisdiction and the Councils of Ministers of Union republics in the case of construction under republic and local jurisdiction.

Technical designs and general cost estimates of especially large projects and the construction of enterprises in new branches of industry must be approved by the Council of Ministers USSR irrespective of their estimated cost (A list of such projects is submitted to the Council of Ministers by the State Committee dealing with construction and by the State Planning Committee USSR).

Technical designs and cost estimates of other projects under union

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jurisdiction must be approved by ministers or heads of agencies of the USSR and projects under republic and local jurisdiction by the Councils of Ministers of union republics. Such designs and estimates may not be changed without the permission in each case of the Council of Ministers USSR.

Present legislation enables ministers and heads of agencies of the USSR to delegate to heads of main administrations the approval of designing specifications, technical designs, and general cost estimates for projects under union jurisdiction of an estimated cost of up to 500,000 rubles. The approval of the designs and estimates dossier for union projects of an estimated cost of up to 300,000 rubles may be delegated to heads of trusts and enterprises. The Councils of Ministers of union republics have the right to delegate the approval of the designs and estimates dossier for projects under republic jurisdiction of an estimated cost of up to 300,000 rubles to the heads of ministries and agencies of republics and for an estimated cost of up to 100,000 rubles to the heads of main administrations and trusts.

Construction started prior to 1 July 1950 is regarded as supplied with an approved designs and estimates dossier (under the regulations effective prior to 1 July 1950) if the following rules (formerly in effect) have been observed:

if the designing specifications for above-limit projects have been approved by Ministers of the USSR, and for below-limit projects by heads of the main administrations of ministries;

if technical designs and cost estimates for above-limit projects have been approved by ministers of the heads of main administrations of ministries;

if technical designs and estimates for below-limit construction have been approved by the head of main administrations of ministries or (in the case of delegated powers) by the heads of trusts and the directors of enterprises.

The government decisions adopted in 1950 have greatly strengthened state control over the quality of the designs and estimates dossier. As was noted above, designing specifications and preliminary cost estimates for projects whose estimated cost exceeds the limit set by the Council of Ministers USSR are first reviewed by the State Committee of the Council of Ministers USSR dealing with construction (or, in the appropriate cases, by the Ministry of Urban Construction USSR) before being approved by the Council of Ministers USSR. Later the State Committee dealing with construction and the Ministry of Urban Construction USSR review the technical designs and final cost estimates approved by the ministries and agencies of the USSR and by the Councils of Ministers of union republics.

Any discrepancies between the technical designs and final cost estimates and the designing specifications and preliminary cost estimates that have been approved by the Council of Ministers USSR are reported by the State Committee and the Ministry of Urban Con-

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struction USSR to the Council of Ministers USSR.

The State Committee dealing with construction and the Ministry of Urban Construction USSR are also charged with the registration of all properly approved designs and estimates dossiers, including the designing specifications and preliminary cost estimates and the technical designs and final cost estimates.

3. Bank Control over the Provision of Projects with Designs and Estimates.

In the preceding chapter it was said that one of the chief requisites for financing was the certificate on Form 6 on the construction project's being provided with approved designs and estimates. Together with this certificate, the projects must also submit to the banks certified copies of the approved general cost estimates. Projects that have been released from the requirement of making up general cost estimates and are being financed on the basis of designs and cost estimates for individual construction items must submit copies of the approved cost estimates for these items.

Before authorizing financing of a newly started construction project, the bank verifies the information given by the project in the certificate (Form 6). As a rule verification is handled directly at the construction site by an engineer or a credit employee of the bank. After the information has been verified, the bank employe and the head of the project execute an act confirming the results of the comparison of the information in the certificate with the actual existence of the approved designs and estimates dossier.

The purpose of this verification is to make certain that the project does have the technical dossier required by law and that such a dossier has been properly approved. In addition the bank employes verify the existence of the actual authorization orders in the designs and estimates dossier or the authorizing signatures on the designs and estimates documents.

If such verification by the bank discloses approval of the designs and estimates dossier by a noncompetent authority, financing of the project is held up. If there are only individual inaccuracies (for example, the absence of authorizing signatures on a number of designs for the principal production shops, or the absence of justifying documents for certain items in the general cost estimate in the form of final or preliminary cost estimates for the individual construction items, and so forth), then the bank finances only those construction items and outlays that are fully documented in the properly approved technical dossier. In those cases where the final or preliminary summary cost estimates for individual construction items and outlays do not agree with the corresponding items in the general cost estimate, the banks set a time limit for the proper corrections (usually 15 days, but never more than one month). In the meantime, such construction items and outlays can be financed by the bank, but within the limit of the lesser of the two differing amounts.

By a number of government decisions and orders of the Ministry

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of Finance USSR, the investment banks have been strictly prohibited from financing construction projects or individual items that have not been provided with the properly approved designs and cost estimates.

4. Bank Control over the Quality of the Cost Estimates Dossier

It was stated above that the investment banks verify the quality of cost estimates chiefly in the case of those projects whose plans and estimates dossier has not been checked by the State Committee of the Council of Ministers USSR dealing with construction or by the Ministry of Urban Construction USSR.

Bank Control over the quality of cost estimates extends to all basic documents making up the general cost estimate.

The banks check in the first place the correct calculation of the cost of construction materials, goods, semi-manufactured sections and parts and the appended calculation of transportation outlays. These calculations require an especially careful check since the share of construction materials, prefabricated parts and so forth in the total cost of construction and installation work amounts as a rule to more than 50 percent.

The check of these calculations extends first of all to the correctness of the state purchase prices of the suppliers, the surcharges of the supply and distribution organizations, the cost of the containers or their amortization, the freights rates of rail, sea, river, truck and cart transportation, the norms and rates for loading and unloading operations, the weight by volume of materials, the type of "free on board" (f.o.b.) (point of destination, point of origin, and so forth). It must be borne in mind that prices set for the output of cooperative organizations and for enterprises of local state industry can be changed only with special permission of the Council of Ministers USSR.

The list of calculations must not include materials of the grades, sizes and types omitted from current handbooks of aggregated cost estimate norms (with the exception of work not listed by these handbooks).

Of major importance is a check of the proper sources of supply and supply points considered in the calculations. For example, with a view to preventing an illegal increase in outlays for transportation costs, the banks must ascertain whether there is justification for the adopted freight haul distances to the construction site: in the case of material supplies -- from the suppliers' warehouses or the corresponding destination points (f.o.b. station of origin or station of destination and so forth); in the case of local materials -- from their production or delivery points; in the case of construction materials, semi-manufactured goods and parts -- from the producing plants or the project's own auxiliary enterprises. With the same aim in view, the banks verify the legitimate use of coefficients for mountainous terrain, lack of roads, and so forth that tend to increase transportation costs. The banks' verification also extends to the use of the proper ratios of transportation costs as between cart and truck transportation and among trucks of varying makes and capacities (depending on the make-up of the

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truck pool available to the construction organization or planned for the project).

In the course of the check, attention is also devoted to the inadmissibility of including in the calculations outlays for the hauling of materials available locally (bricks, stone, road metal, gravel, sand and so forth).

The banks must also insure that the calculations envisage no more than a single operation, as required by law, of stockpiling and storing materials when they are transported from their point of origin or production to the construction site.

The following and very important stage of bank control involves the verification of the unit rates. The check covers the proper use of current cost estimate norms for the outlay of materials, labor and machine-shifts of construction machines, the tariff rates of piece workers (taking account of current correction coefficients for wages), the calculation of the cost of materials, goods, semi-manufactured sections, parts and so forth, and the cost of machine-shifts (based on the catalogue listing cost estimate rates for machine-shifts of construction machines, which is compulsory for the great majority of projects). In this connection, the bank employes must pay particular attention to the inadmissibility of including in the unit rates any kind of illegal coefficients for inconvenient, complex, laborious, and rush operations and so forth, as well as departures from the norms and rates listed by current cost estimate handbooks.

The banks must also ascertain the strict observance of the established grades, types and recovery norms of materials listed by the handbooks.

In checking the labor outlays, the banks must see to it that a number of supplementary outlays for wages authorized by special governmental decisions have been included in the calculation of the unit rates. Such outlays are normally reimbursed to the construction organizations on the basis of their bills over and above the cost of the work calculated at unit rates. Such supplementary outlays include payments relating to the use of the progressive bonus system, for work in remote areas, for length of service, and for work completion bonuses.

After the unit rates have been checked, the banks verify the cost estimates for individual types of work. In this connection special attention must be devoted to the proper choice of unit rates in strict accordance with the technical design data regarding the make-up and nature of construction parts and operations. The banks also make use of the research materials to determine the proper characterization of the category and nature of the soils at the construction site. The calculations of the volume of individual types of operations and construction parts are verified by spot checking the most common and most expensive categories. In the course of this check, the banks ascertain whether the recovery of materials envisaged by the unit rates is properly reflected in the cost estimates and whether the adopted

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overhead expenses are legitimate.

At the same time the check is intended to disclose any superfluous excesses in the cost estimates. For example, without special permission of the appropriate minister industrial construction projects are not permitted to use plaster and oil paints on the walls of workshops and storage rooms, unless required by the technological process or heating considerations.

In the cost estimates of the equipment and its installations, the check covers the following aspects: the proper nomenclature, types and grades of the installed equipment and the correct equipment prices and shipping costs to the project site. The cost of installation work is verified on the basis of data in current price books listing equipment installation costs. The cost of nonstandardized equipment, including outlays for designing, is usually estimated by analogy with current prices of similar equipment. The estimated cost of the equipment may not include the cost of testing and adjusting of equipment since such outlays are already considered part of the installation price-book norms. Nor may the complex testing and regulating of equipment after installation be calculated into the cost estimates since such outlays form part of the expenses of putting the plant into operation and are not financed as capital investments.

After the checker has verified the correct transfer of the estimated cost of individual types of work and outlays to the cost estimates of individual construction items, he proceeds to a check of the general cost estimate. This involves a comparison of the figures in the general cost estimate with the summary data of the cost estimates for individual construction items and outlays. At the same time the checker verifies the outlays for the maintenance of the director's office of the enterprise under construction. He then verifies the justification for the following cost items in the general cost estimates: the cost of geological exploration work; outlays for preparing, planning and developing the construction site; the cost of residential, cultural-social and municipal construction; nonlimited and special expenditures and outlays, including outlays for the maintenance of roads during the winter, the removal of rubbish, first-year repairs of wooden buildings, various types of additional payments authorized by special government decisions and so forth. Information given in the work organization design is then used for a check of the justification for outlays for temporary buildings and installations and for the acquisition of construction machinery and means of transportation (in the third part of the general cost estimate). The correct calculation in the general cost estimate of amounts to be recovered is also verified.

As a result of the check of the cost estimate dossier, the bank executes a protocol listing in detail the nature and amount of any inflated estimates. Before the protocol is approved by the head of the bank, the protocol is discussed with representatives of the client and the contractor. The results of these discussions are also drawn up in the form of a protocol, to which the views of the various sides are appended if necessary.

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The need for eliminating the inflated estimates discovered in the course of the on-the-spot check of the cost estimate dossier is called by the banks directly to the attention of the appropriate authorizing authorities. If these authorities refuse to review the cost estimates, the problem is placed before the head office of the given investment bank.

In those cases where individual ministries and agencies refuse to meet the banks' request for elimination of the inflated cost estimates, the problem is placed before the Ministry of Finance USSR.

Once the necessary corrections in the cost estimates have been approved, the banks see to it that such corrections are actually entered in the cost estimate dossier.

According to a government decision adopted in 1950, the cost estimate of construction is now being calculated in prices effective 1 July 1950.

5. Bank Control over Observance of the Cost Estimate Limit of Financing

To prevent the granting of funds above the approved estimated cost of construction, the investment banks carry out constant control over observance of the cost estimate limit of the financed project. For the purpose, the banks make a special accounting of funds and upon opening the financing account determine annually the amount of the unexpended remainder of the cost estimate limit.

When necessary, the banks review the unexpended remainder of the cost estimate limit in the course of the year. Such a review is carried out especially in the case of projects that have a very small unexpended remainder of the cost estimate limit or have increased the annual volume of construction, and so forth. Banks grant funds to the projects in accordance with the approved annual financing plans only within the limits of the unexpended remainder of the cost estimate limit; once the limit is reached, financing ceases.

The calculation of the unexpended remainder of the cost estimate limit is based on the total amount of the general cost estimate of the project; in case the project is being financed on the basis of designs and estimates for individual construction items, the calculation of the remainder of the limit is based on the total amount of the approved cost estimates of the construction items and outlays listed in the annual itemized list. The cost estimate of the completed part of the construction project is then compared with the total amounts obtained by the project by the start of the year or by the date of the bank review, including receipts from sources other than the bank (such as the sale of fixed capital, amortization deductions on fixed capital of the construction project and so forth). In making its review, the bank takes account of a number of factors that may affect the size of the remainder of the cost estimate limit. We will discuss only the most important of these factors relating to the two main groups of construction projects (those financed on the basis of general cost

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estimates and those financed on the basis of cost estimates for individual construction items).

In accordance with the current "Regulations on Contract Agreements", funds listed in the third part of the general cost estimate for the acquisition of construction machinery, means of transportation, construction implements and stores are granted to the contractor at no cost for the construction operations assigned to him. This is usually done by adding the corresponding appropriations to the capital construction plan of the main contracting administration while deducting the same amount from the plan of the main client administration. In that case the remainder of the cost estimate limit is accordingly reduced. In addition the remainder of the cost estimate limit can be reduced by the amount of the planned accumulations and reductions in construction costs (in the case of construction carried out by the so-called economic method). The cost estimate limit may also be reduced by the amount of illegitimate capital outlays (since such outlays may not be replaced by the investment banks under existing legislation) and the amount of centralized funds spent for outlays included in the construction cost estimate.

The remainder of the cost estimate limit may be increased by the amounts of additional payments and compensations not envisaged by the approved cost estimate of the project, but subject to payment by the bank; the cost of fixed capital and materials handed over at no cost and in approved fashion to other organizations at the expense of funds intended for the financing of the project (except for cases where the project hands over at no cost to the contractor construction machinery, means of transportation and so forth that were acquired under the terms of the third part of the general cost estimate); the amounts of outlays for interrupted and incompleted construction written off with permission of the Council of Ministers USSR; the total amount of losses incurred in the project's economic operations after such losses have been written off in approved fashion.

A number of additional factors are taken into account in the case of projects that are financed on the basis of plans and cost estimates for individual construction items. For such projects the remainder of the cost estimate limit may be increased by the amount of legitimate outlays made before the start of the year on construction items not listed in the itemized list of the current year; the estimated cost of construction items that are provided with approved designs and estimates and have been added to the annual itemized list, or items that were formerly listed in the itemized list but were not taken into account in the initial determination of the remainder of the cost estimate limit because they lacked at the time the proper designs and estimates dossier (in the case of construction items on which construction had previously been halted, the unused remainder of the cost estimate limit applies). The remainder of the cost estimate limit in projects financed on the basis of designs and estimates for individual construction items is reduced by the amount of the estimated cost of the items that were originally listed in the annual itemized list but were subsequently excluded; however the actual outlays already made are then deducted from the full estimated cost of such items.

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The investment banks are required to grant funds only within the limits of the estimated cost of each major construction item. In this connection, the banks are required to insure the proper observance of the cost estimate limit not only for the project as a whole, but also for individual construction items. For this purpose, the banks make use of the data in "Certificates on Actual Outlays for Individual Construction Outlays" that are submitted by the projects to the banks together with the annual itemized lists. The banks then deduct from the approved estimated cost of the item the actual cost of work already done (minus the additional payments and compensations paid out in excess of the cost estimate prices) and the cost of the equipment already brought to the construction site, but not yet installed.

Prombank, Tsekombank and Torgbank offices carry out their accounting of the remainder of the cost estimate limit both for projects financed directly by these banks and for projects financed through the intermediary of the State Bank.

In Sel'khozbank, the accounting of the remainder of the cost estimate limit is handled by the appropriate oblast, kray or republic offices in the case of above-limit projects, and by the same bank office that handles the financing in the case of below-limit projects. As for the projects that are being financed through the State Bank, subsequent control over observance of the remainder of the cost estimate limit is also handled by the appropriate offices of Sel'khozbank.

In addition to the accounting of the use of the remainder of the cost estimate limit, Tsekombank and Torgbank offices also carry out separate accounting of the remainders of appropriations provided in the approved cost estimate for the maintenance of the director's office of the enterprise under construction.

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CHAPTER V

SOURCES OF FINANCING AND CREDITING CAPITAL INVESTMENTS

1. Funds for Capital Investments in a Socialist Economy.

The tremendous capital investments made in our country require colossal funds. The amount of funds directed into the development of Socialist industry is especially considerable. The problem of funds for capital investments, especially the sources of Socialist industrialization, was especially acute at the time when the industrialization of the country was only beginning.

The theoretical formulation of the question of sources of Socialist industrialization has been provided in the brilliant works of Comrade Stalin. Comrade Stalin has critically generalized the data on the sources of industrialization in capitalist states, has demonstrated their inherent unsuitability for the Soviet state and has pointed to the existence in our own country of sources for industrialization such as do not and could not exist in any capitalist nation. The practical realization of socialist construction has clearly confirmed these hypotheses of Comrade Stalin.

Comrade Stalin has demonstrated that Britain for many years carried out her own industrialization chiefly at the expense of pillage and merciless exploitation of the millions of working people in her colonies. The "surplus" capital thus obtained was invested by Britain in her industry and speeded the rate of industrialization.

Germany speeded the development of her own heavy industry through the use of 5 billion gold francs' worth of contributions obtained from defeated France in the 1870's.

After World War I, the restoration and development of German heavy industry was also financed by foreign sources, this time by American monopolies: "..a golden rain of American dollars fertilized the heavy industry of Hitlerite Germany, in particular her war industry" (Fal'sifikatory istorii /Falsifiers of History/, Gospolitizdat, 1948, page 12).

Some countries have developed their industry through the granting of concessions and the accepting of loans of an enslaving nature. Such a course was followed by Tsarist Russia. The slow development of industry is characteristic of all capitalist countries. "Even America, the mightiest of all capitalist nations, required 30-40 years after the Civil War to develop her industry through the aid of foreign loans and long-term credits and the exploitation of her adjoining states and islands" (I. V. Stalin, Sochineniya /Collected Works/, Vol 9, page 173).

All these sources of industrialization were inherently unsuitable for the Land of the Soviets "either because colonial exploitation and military conquests for plundering purposes did not fit in with the nature of Soviet rule, or because of the fact that we did not wage three years of civil war, repelling all and any interventionists, in order to

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submit voluntarily, after victory over these interventionists, to their imperialist bondage" (I. V. Stalin, Sochineniya /Collected Works/, Vol 8, pages 123-124).

Comrade Stalin has also demonstrated that in the capitalist states industrialization started with light industry and lasted for a long time. "Only after a long period, during which light industry accumulates profits and deposits them in banks, comes the turn of heavy industry and the accumulations are then gradually transferred to make it possible for heavy industry to develop" (I. V. Stalin, Rech' na predvybornom sobranii izbirateley Stalinskogo izbiratel'nogo okruga g. Moskvy 9 fevralya 1946 g. /Speech at an Election Campaign Meeting of the Stalin Election District of the City of Moscow on 9 February 1946/, Gospolitizdat, 1946, page 17).

Such a course of industrialization is unsuitable for the Soviet state under conditions of capitalist encirclement. Funds for capital investments in heavy industry must be obtained in the shortest possible time.

Comrade Stalin has demonstrated that under the conditions of the dictatorship of the proletariat in the USSR there are domestic sources sufficient to insure the industrialization of the country and the development of the entire Socialist economy. The main factors in the creation of these sources were the expropriation of landowners and capitalists, the elimination of private ownership of the land, factories, plants, transportation, banks, foreign and domestic trade and their transfer to public ownership. As a result, the profits made by state factories, plants, trade and banks are directed into the further development of the Socialist economy, in particular into industry, and into the improvement of the material position of the working masses.

In the early period of Socialist industrialization, funds available for capital investments in industry were also increased as a result of certain measures taken by the Soviet state, such as the annulling of Tsarist debts, on which hundreds of millions of rubles were due annually alone in the form of interest.

As a result of the elimination of private ownership of the land, the peasantry of the nation was released of the annual payment of about 500 million gold rubles to the landowners in the form of rents. "Having been released of these obligations, the peasantry was in a position to help the government in building a new and mighty industry. The peasants were vitally interested in obtaining tractors and agricultural implements" (Istoriya Vsesoyuznoy kommunisticheskoy partii (bol'shevikov). Kratkiy kurs /History of the All-Union Communist Party (Bolsheviks). Short Course/, Gospolitizdat, 1950, page 269).

We know that the Soviet state has repaid the working peasantry a hundredfold for its aid in the matter of industrializing the nation and has brought about the complete technical re-equipping of agriculture and the organization of the collective system.

In 1926, the 15th party conference stated that the rates of expan-

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sion of fixed capital would depend: on the amounts accumulated by the socialized industry, on the utilization of the revenue from other branches of the national economy through the state budget, on the utilization of the savings of the population by attracting these savings into cooperatives, savings banks, domestic state loans, the credit system and so forth.

Of key importance in insuring the accumulation of funds within industry, as well as within other branches of the economy, were and still are increases in labor productivity, all-out reduction of all nonproductive outlays, and the introduction of the strictest program of economies.

Comrade Stalin in his talk with the first American delegation in 1927 described the domestic sources and stimuli for the development of our national economy by emphasizing that these sources were not only constantly operative but were gradually increasing.

As early as the period of the First Five-Year Plan, Comrade Stalin said that, in addition to other sources of accumulation, heavy industry is also expected to provide profits: ..we must reach the point where heavy industry, in particular the machine-building industry, will also yield accumulations" (I. Stalin, Voprosy leninizma /Problems of Leninism/, 11th edition, page 346).

Soviet industry has fulfilled and continues to fulfill Comrade Stalin's instructions. In the course of the Second and Third Five-Year plans, during the Great Patriotic War, and in particular during the postwar period, heavy industry, and especially its machine-building component, has gradually lowered costs and is overfulfilling plans for the accumulation of profits.

Plans for the accumulation of profits are also being overfulfilled by other branches of the national economy. A systematic increase in accumulations makes it possible to direct increasing amounts into capital investments in all branches of the economy. All this shows the advantages of the Socialist economic system and the organizing role of the Soviet state led by the great party of Lenin-Stalin.

The source for the expanding reproduction of both fixed and working capital is the national income, its fund of accumulations. Therefore the magnitude of resources available for capital investments depends, on the one hand, on the magnitude of the national income and, on the other hand, on its distribution.

The advantages of the Socialist economic system insure a systematic rise in the national income at rates that are not and cannot be attained by any capitalist country. The average annual rise in the national income of the USSR was 16.2 percent during the First Five-Year Plan and 17.1 percent during the Second Five-Year Plan. By 1949, in spite of the heavy damage caused by the war, the national income already exceeded the prewar level by 36 percent and was 17 percent above the 1948 level. By 1950, the national income of the USSR was more than 60 percent above the prewar level.

In the capitalist countries, the national income rises very slowly and even drops in times of crisis. For example, the national income of the United States did not regain the 1929 level during the period 1930-

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1937 and in 1948 was 17 percent below the 1943 level. In 1949, the national income of the United States (calculated in current prices) was 5 billion dollars below the 1948 level (See the magazine Bol'shevik, No 8, 1950, page 58). In many European countries, the national income has not reached the prewar level.

In Tsarist Russia, the national income rose by 47 percent during the 13-year period 1900-1913, while in the USSR it increased by 513 percent during the 13 years of the Stalinist five-year plans (1928-1940). The high rates of increase of the national income of the USSR result from a major increase in labor productivity and from economies achieved in the means of production.

The advantages of the Socialist economic system, devoid of crises and unemployment, the patriotism of the Soviet people, who no longer work for capitalists but for themselves, for their own Socialist state, the systematic improvement in the material and cultural standard of living of the working masses, the wide introduction of recent achievements of science and technology, the expansion of Socialist competition -- all these insures a systematic rise in labor productivity and a reduction in the costs of production.

These sources alone during the Second Five-Year Plan accounted for a 67 percent rise of the national income. During the Postwar Five-Year Plan, the total amount of economies achieved from reductions in production costs in industry, in transportation, at the machine-tractor stations, in state farms and in other branches of the economy accounted for almost two-thirds of all centralized capital investments provided by the plan.

The extraordinarily high rates of increase of the national income of the USSR are creating favorable conditions for expanding Socialist reproduction, for meeting more fully the growing needs of the working people, for strengthening the defenses of the nation and for creating the necessary reserves. In the USSR "the national income is not distributed in the interest of enriching the exploiting classes and their parasitic followers, but in the interest of systematically raising the material position of workers and peasants and expanding Socialist production in town and country" (I. V. Stalin, Sochineniya /Collected Works/, Vol 12, page 321). In a Socialist state the national income is distributed according to plan, combining the interests of demand and accumulation.

The relationship between the accumulation fund and the demand fund has varied in different periods of Socialist construction. However, the share of the accumulation fund in the USSR thanks to the advantages of the Socialist economic system is several times higher than in the capitalist countries and amounted (including reserves) to 26.9 percent in 1932, 26.4 percent in 1937, and 27 percent according to the Postwar Five-Year Plan (including 6 percent in reserves).

Accumulation in capitalist countries has sharply dropped. For example, in the United States during the period 1921-1929 accumulation made up an average of 10 percent of the national income, and during

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the period 1930-1937 only 1.4 percent. In Tsarist Russia, during the period 1890-1900, the accumulation fund made up 3.3 percent of the national income. In the capitalist countries most of the national income (one-half or more) is appropriated by the capitalists. During a general capitalist crisis, and especially during the postwar years, the standard of living of the working people greatly deteriorates and the amount of profits made by the capitalist monopolies greatly rises. However, under the conditions of general instability of the capitalist system, the bourgeoisie makes virtually no capital investments and a large part of the appropriated share of the national income is used for nonproductive purposes.

In the USSR, national income as newly created value belongs largely to the state, but also to collective farms and cooperatives (the share of the private economy of the individual farmer and the individual artisan is negligible). The distribution of the national income, including its accumulation fund, is thus determined. One of the chief tools for distributing and redistributing the national income in the USSR is the state budget, which is systematically increasing in magnitude. The state budget accumulates most of the accumulations amassed in state enterprises (in the form of the turnover tax and profit deductions) and part of the accumulations amassed in collective farm and cooperative enterprises (chiefly in the form of the income tax). Accordingly the capital investments of state enterprises are largely covered by the state budget. Most of the accumulations of cooperatives and collective farms, after their fulfillment of obligations to the state, remain under their control and are used for expanding reproduction, chiefly capital investments in fixed capital, in which the state often assists in the form of long-term credits.

The use of monetary accumulations for expanding reproduction of fixed and working capital is the real accumulation of the national economy. Most of these accumulations are directed into the expanding reproduction of fixed capital, i.e. into capital investments. Fixed capital makes up nearly four-fifths of all productive funds of the Socialist economy.

The existing forms of ownership of the tools and means of production also determine the sources for financing capital investments. The maintenance of these financial sources is insured by the existing economic accountability method of administering Socialist enterprises, which tries to stimulate the interest of enterprises in the results of their operations. In this connection, part of the outlays envisaged by the plan for the expanding reproduction of fixed capital are related to the financial results of the operation of enterprises -- the making of profits.

Both the magnitude of the funds directed into expanding reproduction of fixed capital and the magnitude of individual sources of financing are set in the national economic plan at the time of the approval of the budget, the balance of income and outlays of the branches of the economy and the financial-credit plans of the investment banks. In this process all funds for financing and crediting capital investments are concentrated in the investment banks.

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2. The Sources for Financing Capital Investments in State Enterprises and Organizations.

Budgetary Appropriations. The chief source for financing capital investments of state enterprises and organizations are budgetary appropriations, which according to the 1950 plan made up 78.5 percent of all capital investments.

The question of which budget -- all-union, republic, or local -- should supply funds for capital investments is decided on the basis of the jurisdictional position of the corresponding enterprise and organization.

The budgetary funds are paid into the investment banks in accordance with the established financing plans for the bank as a whole and are paid out by the banks to the individual projects in accordance with the plans for the financing of these projects.

The specific magnitude of the budgetary appropriations is based on the balance of income and outlays of each branch of the national economy. The magnitude of the necessary funds is based on the volume of capital investments set by the plan and on changes in the remaining inventory of the project and in its debit and credit position in the course of the year. It should be stressed that the magnitude of the budgetary appropriations is the difference between the total amount of funds required for the fulfillment of the capital construction plan and the amount of funds that the corresponding branch of the economy can itself contribute to capital investment.

A rise in the profits of economic organizations, especially during the postwar period, has insured an increase in the funds that they themselves can contribute to capital investments. For example, according to the 1950 plan, these funds amounted to 29.1 billion rubles compared with 9 billion rubles in 1948.

The chief sources of funds of the economic organizations themselves that may be directed into capital investments are amortization deductions and profits.

Amortization Deductions. Amortization represents the replacement of the wear and tear of fixed capital, the gradual transfer of its value to a unit of output.

In the USSR the amortization of fixed capital is regulated by law.

In the capitalist nations the amortization rate is not regulated by law. Amortization is often used as a means of veiling the results of the operation of enterprises, as a means of forming considerable hidden reserves to avoid taxation and so forth. During the war years, the United States Government decided to set a very high rate of amortization deductions on fixed capital used in war industries. The time limit for amortization of this fixed capital was set at five years and this made it possible for American monopolies to make additional profits.

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The extraordinary high rates of increase of fixed capital in the national economy of the USSR have resulted in a tremendous rise of amortization funds. In the economy as a whole, amortization deductions made up 6.3 billion rubles during the First Five-Year Plan and 20.2 billion rubles during the Second Five-Year Plan. Before the war, amortization deductions exceeded 8 billion rubles a year.

The amortization funds in the USSR are being used by the Socialist state for capital repairs of fixed capital, designed to insure its normal operation, and for financing new construction and the reconstruction of existing state enterprises.

The planning of amortization deductions is based on the initial value of the fixed capital in operation and the established amortization rates. Since in the course of a year the level of fixed capital may change with the opening of new buildings, installations, equipment and so forth, and in some cases with the elimination of capital items from productive use because of excessive wear or unsuitability, amortization is generally planned on the basis of the average annual value of the fixed capital in operation and the established amortization deduction rates.

Profit. We have stated above that in order to strengthen economic accountability and arouse greater interest on the part of the enterprises in the results of their work part of the profit of economic organizations and enterprises is used for the financing of capital investments. The magnitude of this source of financing depends on the balance of income and outlays of the enterprises, main administrations, ministries and the departments of the Executive Committees of the Soviets of working people's deputies.

It is obvious that the magnitude of the profit share used for financing capital investments will depend on the magnitude of the total profit and on the manner in which the plan envisages its utilization.

The advantages of the Socialist economic system and the uninterrupted rise of the output of industry, agriculture and trade insure a steady rise in profits. For example, during the First Five-Year Plan the profits of the socialized sector of the national economy were (before the turnover tax) 19.1 billion rubles and during the Second Five-Year Plan 72.9 billion rubles. Profits have risen especially since the war. In 1948, they were 39.3 billion rubles and according to the 1950 plan 70.7 billion rubles, or almost three times more than during the first year of the Postwar Five-Year Plan (See A. G. Zverev, O gosudarstvennom byudzhete SSSR na 1950 god i ob ispolnenii gosudarstvennogo byudzheta SSSR za 1948 i 1949 gody /On the State Budget of the USSR for 1950 and on the Fulfillment of the State Budget of the USSR during 1948 and 1949/, Gospolitizdat, 1950, page 24).

The profits of existing enterprises are distributed as follows: to replenish their own working capital, for capital investments and for deductions for the budget and the director's fund. The magnitude of the deductions for the budget and the amounts used to replenish the

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working capital and for capital investments are determined by the balance of income and outlays, the minimum deductions for the budget under any circumstances being 10 percent of the planned profits.

A great rise in profits during 1949 and 1950 has made it possible to increase the profit share going into capital investments by more than twice compared with 1948.

Gains from the Sale of Used Property of Existing Enterprises. Aside from amortization and profits, existing legislation envisages the possibility of using other sources of financing capital investments, in particular gains from the sale of used property by existing enterprises. Gains from the sale of used property for use as a source of financing capital investments of state enterprises are funds obtained from the sale of fixed capital that has lost its productive importance or is being transferred to cooperatives or collective farms on order of the government.

The magnitude of such gains is the difference between the amount obtained in the sale of the fixed capital and the outlays related to the sale.

Mobilization of Internal Resources. Budgetary appropriations, amortization, profits and gains derived from the sale of used property are paid into investment banks and are used for financing capital construction. The sources used to pay for the capital investment plan include in addition funds mobilized by the construction projects themselves. Such funds mobilized by the project itself include: (a) funds derived from the sale (use) of surplus materials and the recovery of debts; (b) funds recovered within the terms of the third part of the general cost estimate, i.e. amortization of the fixed capital of the project and funds gained as a result of the sale of temporary buildings, installations and construction machinery; (c) funds obtained from the incidental sale of products obtained in the course of construction; (d) the planned profits and reductions in construction costs (this applies to projects being built by the so-called economic method). Under the conditions of restoration construction (especially during the first years of restoration), great importance was attached to the mobilization of internal resources, such as the use of materials obtained in the dismantling of buildings and installations. To achieve better control, these sources are listed separately in the plans. The plans for the mobilization of internal resources list only the amount derived from the sale (use) of surplus stocks of goods and materials and the liquidation of debts to the project minus the amounts owed by the project to its creditors. At the present time, when emphasis is being put on a speedier turnover rate of funds, the mobilization of internal resources is especially important.

The mobilization of internal resources as a source of financing capital investments is usually planned as follows: the working assets and indebtedness to creditors at the start of the plan year are calculated; then the required amount of working assets (norms) and the normal indebtedness (stable liabilities) at the end of the plan year are calculated.

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If the working assets at the start of the year are called A, and the indebtedness to creditors B, and if the required amount of working assets at the end of the year is called C, and the stable liabilities D, then the planned magnitude of the mobilization of internal resources is (A-C)-(B-D).

In those cases where the actual working assets are less than the established norm, the plan envisages no mobilization of internal resources, but rather immobilization, i.e. additional requirements in funds in excess of those required for the fulfillment of the capital investment plan.

In addition to outlays for the erection of permanent buildings and installations, equipment and so forth, the estimated cost of construction also includes outlays for erecting temporary buildings and installations, the acquisition of construction machinery, means of transportation, construction tools and so forth (within the terms of the third part of the general cost estimate). Such outlays are of a temporary nature, since after the completion of construction or after the completion of certain types of operations and construction items, there is no longer any need for the temporary installations and construction machines and they can be disposed of. The recovered sums planned within the terms of the third part of the general cost estimate for use as a source for financing capital investments are calculated on the basis of the value of the fixed capital of the project subject to sale in the course of the year minus outlays related to the dismantling of these buildings and other expenses.

Furthermore, the estimated cost of construction work also includes amortization deductions on existing fixed capital, in addition to the cost of materials and the outlays for wages. If the fixed capital in question has been rented by the projects to the contractors, the funds received in the form of rent can be used as a source for financing. If the fixed capital is being used directly by the project itself (by the terms of the so-called economic method), then the amortization (except for the part intended for capital repairs) serves as a financing source for the capital investment plan.

In the course of the construction of mines, the construction and expansion of coal mines or ferrous and nonferrous metal mines and some other types of capital construction, minerals are mined incidentally to the construction (for example, coal and so forth). The output thus obtained must be sold. In view of the fact that the outlays related to the mining were financed from funds appropriated for capital investments, the gain from the sale of such incidental output minus the outlays related to the sale must be used as a source for financing capital investments.

The estimated cost of construction includes direct outlays, overhead outlays and planned profits. These profits are used by the contracting organizations for the usual purposes: for replenishing working capital; for their own capital investments, for contributions to the budget and the director's fund. If the construction is carried out by the so-called economic method and the complete estimated cost is

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subject to planning, then the planned profit (except for deductions for the director's fund) reduces the financial requirements of the project. For construction work planned for 1950, the planned profit rate has been set at 2.7 percent of the direct expenses or 2.3 percent of the estimated cost of construction.

One further source used for financing construction projects operating by the so-called economic method is the government plan calling for a reduction in construction and installation costs. For example, if the planned volume of construction work to be carried out by the economic method amounts to 100 million rubles a year in estimated prices, and the plan sets the cost reduction at 6 percent and the planned profit at 2.3 percent, then the total amount of profits and construction cost reductions available for financing is 8.3 percent or 8.3 million rubles.

3. The Method Used by State Economic Organizations to Deposit Funds for Capital Investments and the Nature of Bank Control

In accordance with the balance of income and outlays of individual ministries and agencies, the Ministry of Finance USSR (or the Ministries of Finance of union republics and local financial departments) inform the investment banks of the annual plans for financing capital construction (investments) with a quarterly breakdown (Form 12) listing the total volume of financing and the individual sources. On the basis of these plans, the ministries and agencies inform the head offices of the special banks (or in the case of republic and local construction -- their provincial offices) of the limits of financing (Form 5) by individual main administrations and their directly subordinated enterprises, listing the total amount of financing and the individual sources. The limits of financing by trusts and construction projects are submitted to the banks by the main administrations. The ministries and main administrations may retain an undistributed reserve of 3 percent of the total amount appropriated.

The financing limits submitted by the ministries and main administrations are compared by the banks with the financing plans (Form 12) and are then transmitted (in the form of monetary documents) to the branch offices nearest the construction sites.

Amortization deductions (except for the part intended for capital repairs) are deposited in their entirety in the banks irrespective of whether the actual calculation of amortization is greater or smaller than the amounts envisaged in the plan (the financing limit), depending on whether new construction items are being put into operation on time or are lagging behind the planned time limits. If the actual amortization is greater than the planned figure and only the amount envisaged by the plan has been deposited in the bank for construction, it means that not all worn fixed capital has been restored and that the enterprise has accumulated additional funds not envisaged by the plan. If the actual amortization is less than the planned figure and the planned amounts are being paid to the bank, it means that the working capital is not being properly utilized.

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Amortization deductions intended for capital repairs are usually used by the enterprises that contribute them. The situation is different with respect to that part of the amortization funds that goes into new construction or reconstruction. Amortization funds are being contributed by enterprises throughout the period that fixed capital is in operation irrespective of whether capital investments are being carried out during that period.

In the Socialist economy, free amortization funds of individual state enterprises and organizations are being accumulated by their superior agencies (trusts, main administrations and ministries) and are then used for capital investments in other enterprises of the given trust, main administration or ministry.

Amortization deductions for capital investments are redistributed through the superior agencies -- trusts, main administrations -- especially when a given enterprise altogether lacks a capital investment plan or has a plan involving smaller funds that the planned amortization deductions of the enterprise. In the opposite case, amortization deductions are used in their entirety or in part as a source for financing the capital investments of the given enterprise.

The payments of amortization deductions made by an enterprise for its own capital investments are called local payments, while payments of amortization deductions made by trusts and main administrations in the course of redistribution are called centralized payments.

Payments of amortization deductions for capital investments are due on the 10th, 20th and 29th of each month in the amount equal to one-ninth of the quarterly plan envisaged by the financing limit (Form 5). Prior to receipt of the limit (Form 5), the payments are made on the same dates in the amount equal to one-third of the actual amortization for the last month for which an account has been made. In some cases affecting enterprises with highly seasonable activity the amount of the payments can be set by agreement between the ministry and the corresponding long-term investment bank. The amount of the payments varies in accordance with the actual amortization charge.

For example, if the plan of amortization payments for construction is 990,000 rubles for the first quarter and 1,200,000 rubles for the second quarter, and if the actual amortization charge was 380,000 rubles as of 1 February (for January), 770,000 rubles as of 1 March (for January and February), and 1,200,000 rubles as of 1 April (For January, February, and March), then the amounts of the payments should be: in January -- one-third of 990,000 rubles or 330,000 rubles; in February -- the regular payment of 330,000 rubles plus the unpaid 50,000 rubles (380,000 -330,000 rubles) for January, or a total of 380,000 rubles; in March -- the regular payment of 330,000 rubles plus the unpaid balance since the start of the year of 770,000 - (330,000/380,000) = 60,000 rubles, or a total payment of 390,000 rubles; in April the payments should amount to one-third of the planned amount of 1,200,000 rubles, i.e. 400,000 rubles plus the unpaid balance for the first quarter of 1,200,000 - (330,000/380,000/390,000) = 100,000 rubles, or a total of 500,000 rubles.

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The amortization payments set by the plan can serve as a source for the financing of capital investments of the enterprise (in our example, 990,000 rubles in the first quarter and 1,200,000 rubles in the second quarter); the remainder of the amortization funds, paid in excess of the plan, is assigned to the account of the trust of main administration for the financing of capital investments of other enterprises.

If an enterprise transfers part of its amortization to its trust, combine or main administration for purposes of centralized redistribution, then this enterprise makes a local payment of the entire amortization charge less that part which has been transferred to its superior agency. Since amortization payments are based on the actual charge starting with the first of the year, the excess paid during this period is not returned but is credited to subsequent payments.

Trusts, combines and main administrations pay amortization deductions in a centralized manner, in the same amounts and on the same dates as the enterprises locally. Centralized payments are made both for enterprises that have no capital investment plan and thus make no local amortization payments and for enterprises that pay part of the amortization locally and transfer the remainder to the trust, combine or main administration. As regards enterprises that pay part of the amortization locally, the trusts and main administration pay only the amortization funds transferred by these enterprises; as regards enterprises that make no local amortization payments, the trusts and main administrations pay the entire actual amortization charge irrespective of the amounts transferred by these enterprises. In this way, the full payment of all actual amortization charges is insured. Let us cite an example of the method of centralized amortization payments.

Let us suppose that the main administration must pay the amortization for enterprises according to the following account (in thousands of rubles):

Name of Enterprise	Plan of Amortization deductions Assigned for Construction			Actual Charge	Transferred to Main Administration
	Total	including			
		Local Payment	Transfer to Main Administration		
A	1,000	800	200	1,000	100
B	1,100	900	200	1,000	200
C	1,200	1,000	200	1,300	450
D	1,500	--	1,500	1,500	1,400
E	1,600	--	1,600	1,700	1,600
F	1,400	--	1,400	1,300	1,400
Total	7,800	2,700	5,100	7,800	5,150

In this case, the main administration is expected to pay: for the account of enterprises A, B, and C the entire amount transferred by these enterprises, or 750,000 rubles (100,000/200,000/450,000), and

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for the account of enterprises D, E, and F the entire amount charged to them, i.e. 4,500,000 rubles (1,500,000/1,700,000/1,300,000), or a total of 5,250,000 rubles.

The amount of the actual amortization charge is determined on the basis of accounting certificates furnished to the long-term investment banks: by enterprises -- not later than the 20th following the reported month, by trusts -- not later than the 27th, and by main administrations -- not later than 40 days after the end of the reported month. For that reason amortization payments are adjusted by enterprises and trusts in the following month, and by main administrations one month later, i.e. for a report on January -- in March, for a report on February -- in April and so forth.

If amortization payments are not forthcoming on the due dates, the branch banks give the enterprises, trusts, and main administrations a three-day notice to make the necessary payments. If, for some reason, payments are still withheld, the special banks ask the superior economic organ to issue an order to the State Bank office handling the account of the amortization payer (enterprise, trust, or main administration) demanding the compulsory recovery of the required amount and its transfer to the special bank. If the nonpayment of amortization is noted in the accounting certificate, then in order to recover the unpaid amount the branches of the special banks ask the local financial department (or in the case of nonpayment by main administrations -- the Ministry of Finance USSR or the Ministries of Finance of union republics) to order the appropriate State Bank office handling the payer's account to write off the unpaid amortization amount. State Bank offices fulfill such orders of economic organizations and financial organs immediately after the payments into the budget.

The investment banks see to it that the enterprises figure their amortization charges for all items that have been put into operation in their entirety or partly, starting with the 1st of the month following the start of operations. The banks check periodically on the state of incompleted capital investments in order to determine the completeness and timeliness of the amortization charges. If the banks discover any cases where the start of operations (even though partial) on a newly completed construction item has not been reported and has not been included in the amortization charges, the banks have the right to demand an additional amortization charge, if necessary through the intervention of the superior economic organizations.

The investment bank branches do not recompute amortization payments at the end of the year. All year-end accounting is handled by the head and provincial offices of the banks directly with ministries and agencies. If, in the course of this year-end recomputing, it turns out that a ministry or an agency as a whole has overpaid its amortization charges, then the excess payment may with the permission of the Ministry of Finance USSR (the Ministries of Finance of union and autonomous republics or the kray and oblast financial departments) and upon the request of the ministry or agency be credited to the payments of the following year, either as centralized payments or as the local payments of individual enterprises. If the bank (the head office

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or the provincial office) finds on the basis of the reported data that the ministry or agency used up all appropriations allocated for capital investments during the year, then the excess amounts are not returned and the amortization payments for the following year are accordingly reduced. If the bank finds at the end of the year that the ministry or agency as a whole has underpaid its amortization charges, the unpaid amounts must be paid by the main administrations, trusts and combines upon the request of the ministry or agency. If the arrears for the previous year have not been submitted to the bank within 10 days after the presentation of the annual summary account to the ministry or agency, the banks have the right to apply the current payments first of all to the extinction of the stated arrears and enter the recovered sums in the receipts of the corresponding budget.

Just as in the case of amortization, the actual accumulation of profits may vary from the planned amounts as a result of the overfulfillment (or underfulfillment) of the plan for the output and sale of products (as a whole or by assortments), as a result of a discrepancy between the actual and the planned costs of production and so forth. What then should be the amount of profits paid into the special banks for the purpose of capital investments? In contrast to the procedure of paying amortization charges, profit payments for capital investments are based on the actual accumulation of profits and the proportions envisaged by the plan, but not in excess of the planned amount.

Such a procedure of paying profits for capital investments preserves the stimulus for the achievement of profits in excess of plan (a large part of which, as we know, goes into the director's fund) and makes possible the proper utilization of working capital.

The payments of profits for capital investments, like in the case of amortization, can be made either locally or in a centralized manner (by the trust, combine, or main administration).

Both local and centralized payments are due on the same dates as the amortization payments, but the amounts are distributed as follows: In the first month of the quarter - 20 percent of the quarterly plan, in the second -- 35 percent and in the third - 45 percent. Prior to receipt of the financing plans (limits), profit payments unlike amortization payments are paid in the amounts envisaged by the plan of the preceding quarter. It must also be borne in mind that profit payments are based on the actual accumulation for each quarter separately, and not on the accumulation since the first of the year as in the case of amortization payments. Moreover, the following provisions are designed to insure that no payments for construction are being made at the expense of the working capital of the enterprise: payments for the first two months of the quarter must not exceed two-thirds of the quarterly plan and payments made throughout the quarter must not exceed the amount set by the quarterly plan.

The amount of the profits payments allocated to construction is regulated, as in the case of amortization, on the basis of data given in accounting certificates that list the actual amount of accumulated profits and on the basis of the proportions set by the plan. The local

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payments of profits is illustrated in the following example.

Let us assume that the total planned profits for the quarter have been set at 2,000,000 rubles, of which 800,000 (40 percent) have been allocated to construction. Let us also assume that the actual profits were 700,000 rubles in the first month of the quarter, 1,400,000 rubles in the first two months and 2,100,000 in the three months of the quarter. In that case profit payments allocated to construction should amount to:

in the first month $\frac{800,000 \times 20}{100}$ = 160,000 rubles.

in the second month, the regular payments $\frac{800,000 \times 35}{100}$ = 280,000 rubles plus the unpaid balance for the first month of $\frac{700,000 \times 40}{100}$ - 160,000 = 120,000 rubles or a total of 400,000 rubles.

But since payments for the first two months must not exceed two-thirds of the quarter plan, i.e. $\frac{800,000 \times 2}{3}$ 533,000 rubles, and since 160,000 rubles were paid in the first month, the payment in the second month should be only 373,000 rubles (533,000-160,000).

In the third month, the payment should amount to: $\frac{800,000 \times 45}{100}$ = 360,000 rubles plus the unpaid balance of the first two months $\frac{1,400,000 \times 40}{100}$ = 560,000 minus 533,000 rubles (160+373,000), or a total of 387,000 rubles. However, since the total amount paid must not exceed 800,000 rubles (as set by the plan) and since 533,000 rubles were paid during the first and second months, the payment in the third month amounts to only 267,000 rubles (800,000-533,000).

If it turns out on the basis of the accounting certificate that the actual profit payments were less than required then the difference must be paid into the bank immediately. If the payments exceed the required amount, the excess may either be credited to the payment of profits or amortization for the following period or be returned to the paying organization upon its request.

Centralized profit payments are made by trusts and combines in accordance with the amount of profits (within the planned limits) made by those enterprises for whose account such payments are envisaged by the plan. The following example will illustrate how main administrations effect centralized payments of profits allocated to construction.

Let us assume that the main administration must, according to plan, pay the profits for the account of four enterprises. The amount of profits of these enterprises, both planned and actual, are shown in the following table (in thousands of rubles):

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Name of Enterprise	Total Planned Quarterly Profit	Share of Profit Allocated to Construction	Total Actual Quarterly Profit
A	1,000	400	1,000
B	1,500	300	1,700
C	1,250	250	1,200
D	400	100	loss 100
Total	4,150	1,050	3,800

In this case the main administration is required to pay to the special bank 961,400 rubles, in accordance with the following calculations: The total planned profits of all four enterprises are 4,150,000 rubles, of which 1,050,000 rubles, or 25.3 percent, are allocated to construction. Since the total actual profits of these enterprises (including excess profits of some and losses of others) amount to 3,800,000 rubles, the total payment amounts to

$$\frac{3,800,000 \times 25.3}{100} = 961,400 \text{ rubles.}$$

To insure the payment of profits on time, the banks resort to measures similar to those used in accounting for amortization payments: appeals to the enterprises, trusts and main administrations, the receipt of orders for compulsory recovery of funds from the superior economic organizations and financial organs and so forth. Requests and orders regarding profit payments are also fulfilled by State Bank offices immediately after the payments have been allocated to the budget.

It should be noted that the special banks engage in no year-end recalculations of profit payments. All such recomputations are handled only by the Ministry of Finance USSR, the Ministries of Finance of union republics or their local organs (as far as the local economy is concerned).

Funds obtained from the sale of old property of the enterprise are paid into the long-term investment banks as such gains are being realized. If the funds listed in the financing limits (Form 5) are not being paid, the branch banks request the enterprise to submit a certificate listing the gains realized from the sale of old property. On the basis of these certificates, the banks in the absence of payments pass the matter on to the financial organs as in the case of nonpayment of profits and amortization.

Funds obtained from the sale of incidental production are deposited in the banks in their entirety (except for expenses involved in the sale itself) irrespective of the amount envisaged by the financing limit (Form 5). Projects engaged in the incidental mining of minerals submit to the special banks monthly accounting certificates listing the amounts actually realized from the sale of the minerals less the associated expenses. If necessary, the banks may ask the appropriate financial organs to exact the immediate recovery of unpaid amounts realized from the sale of such incidental minerals.

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Funds obtained from the sale of surplus materials and equipment and funds recovered from debtors under the category of mobilization of internal potentials are also deposits by the projects in the banks in their entirety (and are credited to their accounts). Materials and equipment used directly by the projects reduce the need for funds. The banks carry out systematic control over the fulfillment of plans calling for the mobilization of internal potentials.

Recovered sums envisaged by the third part of the general cost estimate are paid by the projects into the banks in their entirety (except for expenses involved in dismantling and disassembly) irrespective of whether such funds have been listed in the financing limit. (If the limit does not list such funds, they are credited to the account of the trust or the main administration). On the basis of reports submitted by the projects, the bank branches see to it that items envisaged in the third part of the general cost estimate are entered on time as fixed capital, that dismantled materials are properly credited and that all realized sums are deposited in the bank, that amortization charges on fixed capital are properly calculated, that rent payments obtained from contractors are deposited in the bank or, in the case of the so-called economic construction method, that amortization is properly deducted (except for the part allocated to capital repairs).

In addition to the enumerated sources of financing, some projects may have the benefit of so-called partial participation of other enterprises. Let us illustrate this partial participation.

Let us assume that several enterprises in a city or district require electric power and that a single power plant able to supply all these consumers would be the most economical solution. For purposes of simplified control over the construction of the power plant, one of these enterprises would be listed in the capital investment plan, but the funds for this project would not come only from the one enterprise listed in the plan, but also from the other benefiting enterprises.

The various participating enterprises pay their share into a common financing fund and the long-term investment banks see to it that these funds are paid on time.

The enumerated sources are used for financing the project on the following basis: funds derived from the payments of the enterprises, trusts, main administrations themselves are paid out only as they are actually being deposited in the bank (within the planned limits); budgetary funds are paid out within the limits of the quarterly appropriations. At the end of the year all funds not used for centralized capital investments of state enterprises and organizations, irrespective of their origin (budgetary funds and funds of the economic organizations themselves) are contributed to the appropriate budget (union, republic or local). Only projects situated in remote areas of the RSFSR get a two-month extension for the use of funds left at the end of the year to clear accounts for work performed during that year.

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Captial investments of state enterprises and organizations are made on the basis of national economic plans from sources described above.

In addition, a Government decree dated 19 September 1935 has made provisions for extra-limit capital investments at the expense and within the limit special financing sources (Decree of the Council of People's Commissars USSR "On Outlays for Construction Carried Out Outside of the Capital Construction Plans", Izvestiya, 21 September 1935). These special sources include: part of the director's fund; funds allotted for this purpose in financial plans; profits in excess of plan and the mobilization of internal potentials; profits realized by enterprises from the sale of the output of shops producing consumer goods; budgetary appropriations for this type of capital investments; state insurance funds. In 1949 and 1950 most of the extra-limit (noncentralized) capital investments were included in the national economic plan.

In addition, special orders of the government have made provision for extra-limit capital investments in certain branches of the economy at the expense of special sources. For example, extra-limit capital investments have been permitted in the wine and beer industry at the expense of deductions from the value of the sold output.

Special appropriations from amortization deductions are used to cover expenses for capital repairs of the fixed capital of the nation's economy.

4. Sources of Capital Investments in Collective Farms

The chief source of capital investments in collective farms are funds of the collective farms themselves and funds granted to them in the form of long-term credits. . The magnitude and the allocation of state aid as varied through the several stages in the development of collective farms.

At the present time, the success achieved in Socialist agriculture has made it possible to realize most of the capital investments of collective farms at the expense of funds supplied by the farms themselves.

In accordance with the Stalinist Charter of the Agricultural Artel, the chief source of capital investments in collective farms is the systematic enlarging of the so-called indivisible funds.

Indivisible funds are created and enlarged through: initial monetary payments of the collective farmers; the value of part of the socialized property of members of the artel; the value of property granted to the collective farms at no cost by the state; deductions from the money incomes of collective farms (amounting to 12 to 15 percent in grain areas, 15 to 20 percent industrial-crop and livestock areas and not more than 15 percent in fishery collectives); gains from the sale of livestock for the purpose of acquiring improved breeding stock; gains from the sale of livestock and livestock products and the sale of horses (in the amounts determined by the general collective farm meeting, taking account of the requisites for the plan fulfillment

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of livestock and horse reproduction); the replacement by state insurance organs of damage to collective farm property caused by natural calamities; gains realized from the sale of various types of collective farm property; interest received by the collective farms from Sel'khozbank on deposits in the capital investment accounts.

In addition, indivisible funds can be enlarged through the labor participation of collective farmers in the construction of collective farm buildings, installations, the production of tools, and also through an increase in the collective farm herds.

Indivisible funds also include the value of buildings built with agricultural credit after the loan has been extinguished with the money income of the collective farm.

At the present time, the chief source for enlarging indivisible funds are deductions from the money income of the collective farms.

The party plenum of February 1947 noted that during the five years preceding the war the fixed capital of collective farms rose 2.5 times. The deductions into the indivisible funds of some leading collective farms go into the hundreds of thousands of rubles. For example, in the Collective Farm imeni Il'ich, Dobrinskiy Rayon, Voronezh Oblast, annual deductions into the indivisible funds amount to 320,000-400,000 rubles, and funds allocated to capital investments 500,000-700,000 rubles a year (See Pravda, 21 June 1949). The consolidation of collective farms has produced an even greater rise in money incomes and in increase in the deductions going into the indivisible funds.

The law on the Postwar Five-Year Plan has called for "insuring a further rise in the socialized wealth of collective farms, their incomes, indivisible funds, buildings, livestock, tools and their insurance, seed and fodder reserves" (Zakon o pyatiletnem plane vosstanovleniya i razvitiya narodnogo khozyaystva SSSR na 1946-1950 gg. /Law on the Five-Year Plan of Restoration and Development of the National Economy of the USSR for 1946-1950/, Gospolitizdat, 1946, page 43).

The collective farms are required to deposit the money part of their indivisible funds in their capital investment accounts at the Sel'khozbank or, in the absence of a Sel'khozbank branch, the State Bank as income from the various sources is received.

The task of Sel'khozbank consists in seeing to it that all money funds of the collective farms allocated for capital investments are deposited in their account.

The methods used by Sel'khozbank in insuring the depositing of collective farm funds in their capital investment accounts vary from the methods used to mobilize the funds of state enterprises and organizations for capital investments. In the case of state enterprises and organizations, the banks may if necessary (through the financial organs) resort to the compulsory recovery of the unpaid amounts. Sel'khozbank may not use any such compulsory measures in the case of collective farms. It must see to it that the collective farms abide by

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the regulations of the Charter of Agricultural Artels regarding the depositing in the bank of all money funds allocated to capital investments. To achieve this goal, the bank resorts to organizational work among the masses, aids the collective farms in the management of their finances and bookkeeping, and points out potential reserves for increasing money incomes. The depositing of funds in the bank insures their safekeeping for the collective farms and their use within the regulations of the Charter and the approved income and outlay estimates.

The collective farms receive high interest on their bank deposits -- 3.5 percent a year, i.e. more than the bank gets on long-term loans, and at the same time are able to manipulate these funds. Upon the request of the general collective farm meeting, Sel'khozbank offices can provide funds from the capital investment account in the form of a temporary withdrawal and for economic needs not related to capital investments (for example, for the purchase of seed, fodder, for veterinary services to livestock and so forth). The repayment terms of such temporary withdrawals are set by the collective farm offices in agreement with the Sel'khozbank branches.

Credit is granted to collective farms provided that they observe the regulations regarding the formation, safekeeping and utilization of indivisible money funds. This condition plays a key role in the whole matter of strengthening and enlarging the socialized wealth of the farms. Sel'khozbank offices systematically check on the proper handling of deductions going into the indivisible funds and on the depositing of money funds in the banks. In case of infractions of Charter provision regarding the organization, safekeeping and utilization of the indivisible funds, the bank offices call such infractions to the attention of the collective farm office and the Inspection Committee and submit quarterly reports to the local Soviet organs for the adoption of measures designed to enforce observance of the Charter regulations.

The amount of funds to be drawn in by Sel'khozbank at the expense of the indivisible funds of collective farms and the amount of state farm credit to be granted and the repayment of loans are set in the financial and credit plan of Sel'khozbank, which is approved by the Council of Ministers USSR.

The fulfillment of the plans of drawing in collective farm funds for the purpose of capital investments is of great importance in the matter of fulfilling the collective farm credit plan and further strengthening the collective farms organizationally and economically.

5. The Sources for the Long-Term Crediting of Capital Investments of Cooperatives

The sources of capital investments of cooperative organizations are as a rule the funds of the cooperative systems themselves. Budgetary funds are now being granted very seldom for the long-term crediting of cooperative organizations. The organization and utilization of the funds of the cooperatives themselves for the purpose of

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capital investments have moreover their distinguishing characteristics.

Capital investments of producer, lumbering and veterans' cooperatives are made in accordance with the plan on the basis of long-term loans granted by Torgbank. These funds are granted by the bank from a long-term credit fund that is being systematically replenished. (In addition these cooperatives may finance capital investments relating to an increase in the output of consumer goods with loans granted by the State Bank for periods not exceeding one year).

Funds for the long-term crediting of producer cooperatives were created in Torgbank (at that time in Vsekobank and Ukrainbank) as early as 1933. At the present time the producer cooperative system includes a centralized long-term credit fund (TsFDK), republic long-term credit funds (RFDK) and local funds (MFDK). The central fund is under the control of the Central Council of Producer Cooperatives of the USSR, and the republic and local funds are administered by republic and kray (oblast) cooperative centers, respectively. The central fund is used to replenish the republic and local funds when the funds lack the means for the fulfillment of the established long-term crediting plans. The central and RSFSR funds are deposited in the Torgbank of the USSR (in Moscow) and the other republic and local funds in the corresponding Torgbank offices.

Long-term credit funds are being systematically replenished from the following sources: deductions from the profits of artels, associations and unions; the repayment of earlier long-term loans from these funds; interest charged by Torgbank on such long-term loans; special deposits made by cooperative organizations from their excess working capital. The chief sources for the replenishing of these funds are profit deductions.

Each artel (union) deposits in the long-term credit fund of its system (in Torgbank) 20 percent of the distributed profit (the profit left after payment of the income tax), with one-fifth of the contribution going into the central fund. The magnitude of the deductions to be deposited in the funds is set by annual financial plans, with a quarterly breakdown, but the deposits in the funds are based on the actual profit, which depends on the results of the work of the artel (union) during each quarter. Deposits in the funds are made on the dates set for income tax payments.

In those cases where organizations after having made profits suffer losses in a following quarter, the final accounting of their payments into the funds is handled at the end of the year.

Let us assume that an artel made the following profit before taxes: by 1 April 60,000 rubles, by 1 July 100,000 rubles, by 1 October 80,000 rubles and by 1 January, 140,000 rubles. The income tax rate is 25 percent.

In that case the artel should make the following payments:

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for the first quarter $(60,000 - \frac{60,000 \times 25}{100}) \times \frac{20}{100} = 9,000$ rubles i.e. 4,500 rubles on 20 April and 4,500 rubles on 20 May;

for the second quarter $(100,000 - \frac{100,000 \times 25}{100}) \times \frac{20}{100} - 9,000 =$ 6,000 rubles, of which 3,000 rubles on 20 July and 3,000 rubles on 20 August.

Since the artel suffered a loss during the third quarter (100,000 - 80,000 = 20,000 rubles), no payment is due for the third quarter.

After the end of the fourth quarter, the artel must pay:
$(140,000 - \frac{140,000 \times 25}{100}) \times \frac{20}{100} - 15,000 = 6,000$ rubles i.e. 3,000 rubles each on 5 February and 20 February.

Payments into the long-term credit funds are nonreturnable. If the quarterly accounts of an artel have not been completed by the date the payments are due, the payment must be made in the amount envisaged by the plan for the given quarter; subsequently, after the account has been completed, the actual amount due is computed. Any unpaid amount must be paid at that time, while any excessive payment is credited to the following period or is returned to the cooperative organization upon request.

Payments into the long-term credit fund are made by transferring the appropriate amount from the account of the cooperatives in the State Bank to the account of Torgbank. For this purpose, the cooperative organizations give the State Bank nonrecallable payment orders in triplicate. One copy remains in the State Bank office and two copies (with a State Bank notation of the receipt of the order) are sent by the artel to its union, which submits one of these copies to the Torgbank office. On the basis of these data, both Torgbank and the cooperative union check on the timely payments of the artels. If the artels do not submit their payment orders on time, the producer cooperative unions themselves, upon the request of Torgbank or on their own initiative, issue the payment orders to the State Bank offices where the artels have their accounts.

In contrast to the amortization payments and profit payments allocated for capital investments in state enterprises, the orders of cooperative artels and unions regarding transfer of their funds to the long-term credit funds are carried out in the order of priority set for executive documents.

Torgbank receives the excess of working capital of producer, lumbering and veterans' cooperatives in the form of time payments. These payments, in contrast to deductions that go into the long-term credit funds, are returnable; they are deposited for a certain period of time, after which they are returned to the depositors upon request. If a depositor does not request the return of his deposit, the amount is regarded deposited for the next period. Torgbank pays 1.5 percent annual interest on these deposits.

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Producer and veterans' cooperative organizations may deposit in Torgbank sums allocated for specific purposes in capital investments.

In certain cases budgetary funds are allocated for the long-term crediting of cooperative organizations, as are the funds of state organizations in connection with the fulfillment of individual orders. All these funds are paid into Torgbank, which pays them out to borrowers in the form of loans on terms set by the authorities that supplied the budgetary funds or gave the orders to the cooperatives. Torgbank thus controls all funds allocated for capital investments of producer, lumbering and veterans' cooperatives and insures a uniform system of crediting and bank control.

Only capital investments of less than 50,000 rubles a year for a cooperative organization as a whole may be covered with funds kept in the organization's account in the State Bank.

Funds accumulated by Torgbank in the long-term credit funds are used for capital investments in producer, lumbering and veterans' cooperatives and for the granting of loans to be used as working capital (to cover established norms) and for the restoration of the liquidity of assets.

The method of marshaling funds for capital investments in consumer cooperatives differs from the method adopted for producer cooperatives. The long-term credit fund of consumer cooperatives, which was set up in 1932 in Torgbank and was enlarged through the deposits of funds previously created by the system, shares and so forth, is no longer being replenished. Torgbank now grants long-term credits to consumer cooperatives only for planned (limit) capital investments approved by the national economic plan. For that purpose, Torgbank receives part of the funds of the State Bank's "special fund for the repair and construction of commercial premises within the consumer cooperative system".

This fund is created in village, workers' settlement, city and rayon cooperatives and in all consumer cooperative unions from the following receipts; amortization deductions on buildings, installations equipment and so forth; appropriations for circulation outlays, for the repair of commercial and storage premises, and so forth; profit deductions of village cooperatives not exceeding 10 percent; additional appropriations from cooperative funds according to the annual financial plan approved by the presidium of the Tsentrosoyuz /the central consumer cooperative organization/.

These are then the basic sources for the financing of capital investments of state enterprises and organizations and the long-term crediting of collective farms and cooperative organizations that are accumulated by the investment banks. These banks also engage in the long-term crediting of capital investments of state enterprises (local industry, state farms and others) and individual borrowers, chiefly for residential construction. For these transactions, the banks use

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their own funds, the remainder of the funds of their clientele, and, if necessary, budgetary funds. All transactions relating to long-term and short-term crediting are reflected in the financial and credit plans of the long-term investment banks.

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CHAPTER VI

THE ORGANIZATION OF TRANSACTIONS IN CONSTRUCTION

1. General Principles and Basic Forms of the Present System of Accounts in the National Economy

The Socialist nature of the Soviet economy makes it possible and necessary to plan transactions in the national economy, with special attention being devoted to the clearing of accounts. The planned organization of transactions speeds the turnover rate of material resources and strengthens economic accountability. The most favorable conditions for such an organization of transactions were created with the credit reform of 1930-1931, which ended the commercial crediting of economic organizations and set up compulsory accounting through banks.

Economic relationships among various links of the national economy -- among suppliers and purchasers, clients and contractors -- are built on the principle of economic accountability as the basic method of administering Socialist enterprises.

Economic relationships among Socialist enterprises are based on economic agreements, which are the best means of combining a plan and economic accountability. Of the greatest importance in carrying out economic accountability among various organizations and in insuring the planned utilization of funds is the proper and most rational organization of accounting relationships in the national economy.

A special role in the matter of properly organizing accounts in the national economy and controlling the discipline of payments belongs to the credit system, especially the State Bank of the USSR, which is the nation's center of accounts. The credit system is expected not only to insure an efficient accounting technique, but to participate actively in the organization of accounts in the national economy.

The chief way in which the State Bank functions as the center of accounts is by keeping the clearing accounts and current accounts of most of the economic, social, budgetary and other organizations. In keeping these accounts (and also in granting credit to economic organizations) the State Bank exercises control by the ruble over the output and circulation of goods. However, since the financing of construction is handled by the special long-term investment banks, the organization and keeping of accounts relating to construction falls upon these banks. The special banks also exercise control by the ruble both in financing and crediting capital investments and in the process of handling the account transactions.

The special banks open financing accounts and clearing accounts (both ordinary and special) to construction projects and contracting organizations and to the supply organizations of the construction industry and geological exploration organizations.

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If construction is handled by the economic method, all accounts are handled through the financing account, which is managed by the title holder. In the case of large (above-limit) construction projects that have a separate office of the chief of construction (in existing enterprises -- the chief of capital construction department (oks)), a large part of the accounts is handled through clearing accounts opened by the chief of construction (or of the capital construction department). Through these accounts pass mainly transactions relating to the execution of construction and installation work, i.e. transactions involving payment for materials, wages and so forth, while the financing accounts, opened by the authorities managing the appropriations for construction, are used to pay for completed construction and installation work and for other types of capital work (geological, the supplying of equipment and so forth).

In the case of the contracting method, transactions are handled partly through the financing accounts of the client organizations (which then manage the appropriations) and partly through the clearing accounts of the contracting construction organizations. The financing account is used to pay for equipment and for construction, installation and other work performed by the contractors.

The clearing accounts of the contracting organizations are used to pay for the supply of materials (the supply of basic materials is also handled through special accounts based on advances, about which more below), wages and other operations relating to the performance of construction and installation work. If the clearing accounts of contracting organizations and the financing accounts lack the funds necessary to meet all claims made on them, such claims are met from subsequent receipts in the following order of priority set by law: (1) payments for wages and deductions; (2) payments into the budget; (3) transfers of amortizations, profits and other funds allocated to the financing of capital investments and capital repairs; (4) payments to the bank on outstanding loans; and (5) other payments.

Upon the request of contracting organizations and construction projects, the banks make payments outside of the established order of priority to meet immediate needs (post and telegraph outlays, outlays for the unloading and delivery of goods etc). Such nonpriority payments may not exceed 5 percent of the average daily deposits in the clearing account during the preceding month in the case of contracting organizations, and in the case of construction projects not more than 3 percent of the total quarterly financing limits.

The banks also open special accounts to contracting construction organizations on the basis of advances received from the clients (these are used to cover transactions relating to the purchase of basic materials), as well as special accounts for capital repairs. Cash transactions with the clients of long-term investment banks (except for municipal banks) are handled through offices of the State Bank.

The system of accounts that has existed in the national economy since the credit reform of 1930-1931 is based on the following:

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1. The entire system of accounts is designed to strengthen economic accountability and financial, planning and contracting discipline in the economy.

2. The great majority of accounts are cleared through the banks and are under their control.

3. Payments are made only with permission of the payer and within the limits of his available funds.

4. Payments for goods, services and performed work are made immediately, i.e. without the granting of commercial credit.

5. The entire system of accounts must be simple, must be adapted to the needs of the individual branches of the national economy and must insure a speedy turnover rate of funds.

The turnover of funds in transactions among economic organizations involves both a period of direct payment and a period of the exchange of documents on the basis of which payments are effected. It is clear therefore how important in speeding the turnover of funds is the speedy handling of documents both in economic organizations and in the banks.

Transactions handled by long-term investment banks can be divided into the following main groups: transactions pertaining to the shipping of goods (the delivery of materials and equipment); transactions pertaining to fulfilled work and performed services; and transactions relating to noncommodity operations.

In the matter of organization, we can distinguish transactions that pass through banks in their entirety and under the banks' control (which are the great majority) and transactions that are handled only in part by banks and are based on the principle of examination of mutual claims (transactions through the Mutual Clearing Bureaus, periodic accounting on the basis of the net balance and so forth).

There is also a difference between inter-city and intra-city transactions.

Inter-city transactions have the following main forms: acceptance, letter of credit, and special account. The main form is the acceptance form, which insures the most rapid turnover of funds and best control on the part of the purchaser.

Intra-city transactions of less than 1,000 rubles may be handled with cash, checks, or payment orders, while transactions exceeding 1,000 rubles are handled with payment orders, checks, and in the form of the collection of payment claims upon acceptance (The procedure of the various forms of transactions and their use are studied in the course on "Money Circulation and Credit of the USSR").

In addition to the basic forms of transactions, there are specialized forms, such as the periodic accounting on the basis of net balances, accounting through Mutual Clearing Bureaus, and so forth).

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It should be borne in mind that the majority of transactions handled by the long-term investment banks are of the inter-city type.

The principles of the existing system of accounts apply also to accounts in capital construction. However, the special aspects of this branch of the economy and the special control functions performed by the investment banks must be taken into account in organizing and carrying out transactions in construction. This applies to transactions relating to: the ordinary delivery of materials and equipment; payments for materials that are guaranteed by the bank; imports of equipment and materials for construction and other centralized transactions; fulfilled construction and installation and other capital work; transactions between the capital construction department and the main operations of an enterprise; single or periodic accounts on the basis of net balances; transactions through Mutual Clearing Bureaus.

2. Characteristics of Capital Investment Transactions

Transactions Relating to the Delivery of Materials and Equipment. The basic principles of organizing inter-city and intra-city transactions relating to the traffic of goods also apply to the transactiins of delivery of materials and equipment for capital construction. Inter-city transactions may be handled in the form of acceptance, letter of credit or special accounts and intra-city transactions in the form of payment claims and orders. The form of the transaction is set by contract. However, since the special banks are charged with making certain that funds allocated to construction are not used for other purposes, in particular for the basic operations of an enterprise and vice versa, the invoices attached to payment claims and orders are stamped "For Capital Construction". Invoices without this stamp may not be honored with funds allocated to capital investments. Moreover, invoices that do bear this stamp may not be paid with funds allocated to the basic operations of the enterprise.

Investment banks are charged with control over prices of materials and equipment. Therefore transactions relating to the delivery of materials and equipment must be handled in the form of invoices no matter whether they involve also payment claims or payment orders. The exception to this rule are transactions relating to the delivery of materials worth less than 1,000 rubles, which are handled simply through payment orders or checks without invoices, since the banks do not verify prices of such small deliveries.

To enable the banks to verify the prices of equipment and materials, the invoices covering deliveries for capital construction must contain the necessary data (references to price books and so forth). Invoices for construction materials and equipment calculated at increased prices need not be paid in their entirety even if they have been accepted by the payer. In those cases only the amount regarded as correct by the bank is paid (In recent times a check on prices for equipment has been made in a number of cases at the supplier's bank (See Chapter XII)).

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As we stated above, transactions relating to the delivery of materials are handled either through the financing account or through clearing and special accounts based on advances. In some cases, special short-term credits are granted to contracting organizations to cover payments for materials. In that case, the corresponding transactions are handled directly through the loan account.

A number of contracting construction trusts and large construction projects include special supply offices (Tekhsnab) working on the basis of economic accountability. At the present time the clearing accounts of these offices are as a rule in the branches of the special banks and all transactions are performed in the usual manner through these accounts.

The usual conditions of negative acceptance (acceptance by silence) and the method of partial acceptance also apply to deliveries for capital construction.

Payment documents that have been accepted and have not been paid by the payer on time acquire the force of executive documents. The payment of such documents by the bank is compulsory and is effected in order of priority from funds received by the payer's account. It should be stressed that only executive documents involving transactions relating to capital investments may be paid from appropriations allocated to capital investments.

For every day that a payment is overdue, the bank charges a fine of 0.05 percent in favor of the seller. Measures adopted by the bank are of course in addition to any sanctions that the seller may take with respect to the purchaser within the terms of their contract.

When transactions are handled in the form of a letter of credit, the bank branch situated near the seller sees to it that the conditions of the letter of credit are observed by the project or the contracting organization. The letter of credit form is used chiefly in transactions relating to deliveries of equipment, means of transportation and other acquisitions.

In view of the fact that unused appropriations for capital investments are transferred to the budget at the end of the year, all unused letters of credit (and special accounts) to be met from financing accounts and the clearing accounts of the chiefs of construction (or of the capital construction departments) must be paid not later than 31 December.

The present method of paying for the delivery of materials and equipment calls for payment after unloading (delivery) of the goods to the purchaser. In the case of delivery of complex equipment requiring longer periods of manufacture, the payments may be effected in stages as the order is being filled.

Transactions Relating to Individual Materials for which Payment is Guaranteed by the Bank. The letter of credit form of handling transactions was formerly used quite commonly for the delivery of materials (lumber, metals and others) that are consumed in large

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quantities. But shortcomings in the letter of credit method (such as the slow turnover of funds) made it necessary to restrict its use. However, the interests of the seller of the stated materials and his need for prompt payment for the shipped materials had to be taken into account. With this in mind, the government has provided for a method of guaranteed payments by the bank for a number of materials (lumber, metals and others) that are supplied to the contracting organizations of certain ministries, with the letter of credit transaction being converted into the acceptance form. Payment is effected in the ordinary manner from special accounts based on advances and from clearing accounts or from loans granted by the special banks for the seasonal accumulation of materials. If, however, all these sources should turn out to be insufficient to cover fully the accepted payment claims, then the bank issues to the purchaser a short-term loan (guaranteed credit) for the balance of the due payment, which is then used to complete the transaction with the seller.

Transactions with guaranteed credit are restricted to certain materials shipped to contracting organizations that are listed in special decisions of the Soviet Government relating to these payments guaranteed by the bank.

Centralized Transactions Relating to the Delivery of Equipment and Materials for Construction. Transactions are termed centralized when they are handled by trusts, main administrations and ministries.

Centralized transactions apply to the delivery of rolling stock to the railroads of the Ministry of Railroads, the delivery of tractors and combines to state farms and machine-tractor stations, small shipments to trade and cooperative organizations, and deliveries of imported equipment and materials for construction.

Transactions with foreign suppliers of equipment and materials are handled through Soviet foreign trade organizations. Ministries, main administrations, combines and trusts carry out transactions for the delivery of foreign goods directly with the Soviet foreign trade organizations. Such transactions are handled through the special banks and apply only to those imports of equipment and materials that are shipped (or are surrendered by documents) to the purchaser from Soviet ports or, in the case of overland movement, have passed through a Soviet border point.

Transactions involving imports are generally handled through a special clearing credit account granted by the bank.

3. Transactions Involving Completed Construction and Installation Work and Other Types of Capital Work

The investment banks handle transactions involving construction, installation, geological exploration and other types of capital work in connection with their function of financial control, which also determines the methods of handling such transactions.

Since the special banks keep both the accounts of the client organizations (the financing accounts) and the clearing accounts of the contracting organizations that fulfill the work, transactions can be

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effected very simply.

Transactions for completed work are as a rule of the intra-city type. Inter-city transactions occur only when the contracting organization sends brigades of workers to do some work in another city.

Transactions for completed construction work are based on the quantity of finished parts of the construction elements according to unit prices listed in the cost estimate. In recent times payment for construction work in certain ministries, in particular the coal industry and rail and water transportation, has been effected on the basis of special price books that give, for example, the cost of a cubic meter of a building of a certain type.

Payment for installation work is effected on the basis of price books after the installation of a certain item or a part thereof has been completed.

In the contracting method, construction work performed during the first 20 days of the month is paid for on the basis of invoices and payment orders or payment claims, while invoices, payment orders or payment claims presented at the end of the month must be accompanied by an acceptance list of the work completed in the course of the month.

Payment has been simplified for completed work covering construction items that are finished in less than three months. Within that period the completed work is paid for without itemized lists, simply on the basis of invoices and payment claims (or orders), not exceeding, however, 90 percent of the cost estimate of the item. After construction has been completed, the payments are checked on the basis of the acceptance lists then supplied.

Construction work completed by contractors can be paid for either in the form of payment orders or in the form of payment claims presented to the bank for collection by the contracting organizations.

In contrast to transactions involving the intra-city delivery of equipment and materials, the time limit for the acceptance and payment of payment claims in intra-city transactions involving performed work is three days, instead of two days. This time limit also applies to inter-city transactions involving performed work.

In the so-called economic method of construction, payment for completed construction and installation work in above-limit projects is made once a month. Payment is based on acceptance lists and payment orders of the manager of the appropriations allocated to construction, i.e. the director of the existing enterprise or the enterprise under construction. In the case of small items (for industrial enterprises with a cost estimate of less than 75,000 rubles), payment is made upon the completion of such items.

If certain sectors of the contracting organization or of the construction project are themselves operating on the economic account-

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ability principle, then payment for work performed by these sectors is also made upon presentation of the acceptance lists, payment orders or payment claims.

It should finally be pointed out that transactions between general contractors and subcontractors are handled in the same manner as transactions between clients and contractors.

Payment for work performed by contracting organizations and by the chiefs of construction (or the capital construction departments) is made by transferring to their accounts the necessary amounts from the financing accounts of the clients or title holders.

Payment for geological work is also made upon presentation of lists giving the volume of the performed work. This information is checked against the rates given in the itemized construction lists and the estimated cost of geological work listed in the cost estimate.

In addition to payments for performed work, other types of transactions are likely to occur often between clients and contractors (involving, for example, the granting of advances, payment for prefabricated construction parts and subassemblies, payment for services and so forth), which are also handled through the investment banks.

As far as the payment for services mutually rendered is concerned, that is handled in the usual manner upon presentation of invoices and payment claims or payment orders, with due attention being given to the established method of control.

4. Transactions Between the Construction Office (or the Capital Construction Department) and the Basic Operations of an Enterprise

Economic and financial relationships arise often between the basic operations of an enterprise and its construction project. For example, the basic operations may render services to the project, including the supply of steam, water, electric power, and may in some cases supply materials, pay amortization and profit deductions into the project and so forth. The capital construction department of the enterprise may in turn render services to the basic operations, for example, regarding repair work. Transactions between the two parts of the enterprise thus arise in accordance with the nature of their economic relationships.

Such transactions must be based on the principle of economic accountability and of the separate use of funds allocated for regular operations and for construction. This requires that transactions be handled on a systematic basis, once every ten days or at least once a month. These transactions are handled through the investment banks and are under their control. Due attention must be paid to the observance of established prices for materials, services, and rates for construction and other types of work.

Payment for services rendered by the basic operations of the enterprise to the construction project is made upon presentation of

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payment claims or orders with attached invoices. Steam, water, power and other utilities are paid for at the prices of the planned plant calculation, which must not exceed the cost estimate prices, while transportation services are paid for at the tariff rates prevailing in the given area.

Payment for construction materials supplied by the basic operations is also effected upon presentation of payment claims or orders and invoices based on current price-book prices.

Payment for performed construction work is made at cost estimate rates upon presentation of acceptance lists, invoices and payment orders or claims.

The construction office (capital construction department) has the right to refuse acceptance or partial acceptance of invoices and payment claims made out by the basic operations of the enterprise.

It happens sometimes that the basic operations are behind in their amortization and profit payments and that at the same time the construction project owes the basic operations money for services rendered (water, steam, and so forth). In such cases, the transactions are best handled on the basis of mutual claims along the lines stated in Section 5.

5. Single and Periodic Settlements of Mutual Claims

The nature of the economic relationships between the capital construction department and the basic operations of an enterprise, between a client and his contractors and among the various economic accountability subdivisions of the construction and installation trusts makes it necessary to effect mutual settlements of accounts. To speed and simplify these transactions and to eliminate (or reduce) the number of nonpayments, settlements of mutual claims are effected. Mutual claims may arise between two organizations (for example between the capital construction department and the basic operations of an enterprise) and among several organizations (for example, the special supply office of a trust, its construction and installation administration, the transportation office, auxiliary enterprises and so forth).

Accounts may be settled in a single transaction or periodically. Accordingly, the following forms of settlements are distinguished:

between two economic organizations -- (1) one-time, or single, settlements and (2) periodic balance settlements;

among several economic organizations (of the same or different ministries -- (1) one-time, or single, settlements, and (2) the Mutual Clearing Bureaus.

The simplest form of mutual settlements are the one-time, or single, settlements of mutual claims (of two enterprises in the same branch of the economy or in two different branches).

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One-time, or single, settlements occur in those cases where mutual payments are episodic and occasional in nature; periodic settlements of balances are used in constant, regularly repeating mutual payments.

In the case of a single settlement of mutual claims of two organizations, one payment -- that of the balance -- is made instead of two.

For example, an enterprise supplied its capital construction department with materials worth 200,000 rubles and at the same time owes the construction amortization and profits payments of 160,000 rubles. In that case, instead of two payments -- the transfer of 160,000 rubles to the construction department and the transfer of 200,000 rubles to the main operations of the plant -- only the difference of 40,000 rubles is transferred to the enterprise, while the remaining 160,000 rubles are regarded as amortization and profit payments.

If mutual payments between the capital construction department and the basic operations of an enterprise (or among clients, contractors and other construction organizations) are likely to recur, then the accounts of the various sides are settled periodically on the basis of the balance in accordance with agreements that must have the approval of the appropriate investment bank office. These agreements list the dates and the manner in which the balances are settled and also determine which side will be responsible for the keeping of the balance, the making of excerpts and the settling of the accounts.

The settlement of balances does not release the investment banks from their obligations of financial control. Therefore any payment orders or claims relating to balance settlements must be accompanied by the necessary reference documents: a list of the shipped materials and equipment with price data, acceptance lists of performed work, and so forth.

In the settlement of mutual claims between the basic operations and the construction sectors of an enterprise, the bank must see to it that no working capital of the enterprise is illegally invested in capital construction. If the bank uncovers the illegal investment of working capital in capital construction not envisaged by the plan, the bank not only does not replace the illegally expended funds, but reduces the remainder of the cost estimate limit of the construction project by the amount involved.

Intra-ministry settlements of mutual claims are handled by the investment banks if the economic organizations of a single ministry have mutual claims. When the mutual claims are among organizations of different ministries, a single inter-ministry settlement of balances is effected.

These settlements may be handled on the basis of special government decisions. When mutual claims are settled between ministries (and sometimes even within a single ministry), the branch banks may be asked by their head office to open special settlement accounts. These accounts are used to pay the claims of the participants in the settlement and receive the funds transferred from the accounts of other

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participants in the settlement. To extinguish the credit balance thus formed, the banks (either locally or at the head office) sometimes grant short-term loans.

6. The Organization of Settlements through the Mutual Clearing Bureaus Attached to the Administration of Construction-Installation Trusts.

A major part of the debits and credits of contracting construction trusts is related to transactions among their economic accountability subdivisions. The construction and construction-installation administrations of trusts, their auxiliary enterprises and special supply offices have constant economic and accounting links. Although these relationships are not always of a mutual nature, there is usually a series of consecutive claims.

To speed intra-trust settlements, eliminate mutual debits and credits of subdivisions of trusts and thus simplify transactions with outside sellers, Prombank in 1948 organized mutual clearing bureaus (BVR) attached to the administrations of trusts. All participants in these bureaus settle their accounts only through such bureaus. Accounts between participants in these bureaus and outside contractors are handled in the usual manner through the bank.

The members of these bureaus are the economic accountability subdivisions of trusts that have their independent balances and clearing accounts in Prombank or in the State Bank. They include: construction and construction-installation administrations, auxiliary production enterprises, special supply offices, transportation offices and so forth. The bureau members within a trust may also include construction and installation organizations that perform work for the trust and its administration on a subcontract basis.

Having shipped materials, performed work or rendered services, the bureau members make out invoices that bypass the bank and are sent directly to the mutual clearing bureau (the second copy is retained by the seller and a third copy goes to the purchaser). If the purchaser -- a member of the bureau -- should refuse to honor the invoice, the matter is settled by the head of the trust or his delegate.

Settlements among the members of the mutual clearing bureaus are handled for the sum-total of all transactions at intervals subject to agreement with the Prombank office, but in any case at least once every five days.

Thus, if the special supply office on the basis of invoices sent to the mutual clearing bureau within a period of five days (the established settlement period) is to receive the amount of 800,000 rubles from the other members, and if that office in turn has to meet claims totaling 300,000 rubles, it receives the difference of 500,000 rubles from the bureau.

On the basis of the invoices received during the established period, the mutual clearing bureau makes out a balance report and submits it (with the signatures of the head of the trust and the chief accountant)

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to the Prombank office for settlement. The report lists the sums and the bureau members involved in the settlements. All settlements based on these reports are handled by the Prombank office within the limits of the funds available in a special mutual clearing bureau account opened to the trust.

In view of the fact that the chief payers within mutual clearing bureaus are construction-installation administrations whose income consists chiefly of payments by clients for performed work, each construction-installation administration participating in a mutual clearing bureau must give the bureau of the trust part of the amounts paid by the clients for the performed work. The magnitude of these amounts (in percent) is based on a quarterly calculation of income and outlays that must be approved by the head of the trust for each construction and construction-installation administration not later than 10 days before the start of the quarter.

In these calculations, the construction-installation administrations list the expected income: for performed work (including work done in the preceding quarter and excluding work to be done in the last 10 days of the last month of the plan quarter that will be paid for during the following quarter); from the recovery of debts; from the sale of above-norm supplies of material resources, and so forth. The calculations also list the expected outlays, including those not related to settlements among bureau members (Section A), such as wages of workers and administrative-economic personnel; payment of bills from outside suppliers; extinction of debts (except debts to the bureau account), and including (Section B) outlays for settlements within the system, transportation and other service, the extinction of debts to the bureau account and deductions going to superior organs.

The difference between all incomes and the outlays not related to the mutual clearing bureau is paid by the construction administrations into the bureau account at the bank out of the amounts received from clients in payment for performed work.

For example, if the calculation of income and outlays of the construction administration shows expected income for performed work of 2,000,000 rubles and other income of 500,000 rubles, or a total of 2,500,000 rubles, and if the expected outlays not related to the bureau's activities (Section A) are 1,100,000 rubles, then the bureau should receive 1,400,000 rubles (2,500,000-1,100,000), which means 70 percent on the basis of performed work worth 2,000,000 rubles.

Accordingly, in the course of the given quarter, 70 percent of all income received from clients for performed work is paid into the bureau account, while the remaining 30 percent goes into the clearing account of the construction administration. Appropriate instructions are given in the payment claims and invoices made out by the construction administration.

Funds received from clients for work performed by subcontractors who are members of the bureau are paid in their entirety into the bureau account (and, as we will see below, are transferred entirely to

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the account of the subcontractors at the time of the settlement of the bureau account).

If invoices presented by construction administrations for performed work are honored only in part (for reasons of financial control), then payments into the bureau account and the clearing account of the construction administration are made from the reduced amount in the proportions originally set by the calculation of income and outlays.

The bank branches check on the correctness of all these transactions, in particular: the indicated amounts received for performed work (using as their basis the approved working plans); outlays for wages (using the labor plan data); receipts from debtors and from the sale of above-norm remainders of material resources and outlays for the extinction of debts (using bookkeeping and inspection data).

In the case of transactions that require correction, the bank branch makes its suggestions to the head of the trust. The required corrections must be made by the trust within a 10-day period.

It may happen that bureau members keep their accounts in different Prombank or State Bank offices. In those cases, the chief Prombank branch handling the trust's account informs the other branches of the percentage of deductions from the income derived from performed work that is to be allocated to the bureau account. All branch banks that handle accounts of construction administrations that are members of the bureau see to it that the administrations fulfill these instructions.

A change in the established percentage in the course of the quarter is permitted in extraordinary cases in agreement with the Prombank branches serving the trust and after the branches verify the justification of this change.

As we stated above, all settlements of the balance report submitted by the mutual clearing bureau are handled by the bank within the limits of the available funds in the bureau account. The bureau account may also be used (to the extent of 50 percent of the balance in the account) for extinguishing overdue payments on short-term loans granted by the bank to the trust (or the special supply office) and for covering the unprovided part of advances obtained by the trust (of the supply office) from its clients, if these amounts cannot be recovered from the regular clearing accounts of the trust, the supply office and the construction administrations. The bureau account is also used to transfer to the bank the trust's share (amortization, profits and so forth) of the funds allocated to capital investments and capital repairs (amortization).

If the balance available in the bureau account is sufficient to cover all claims by its members on the basis of the balance report and the bank's claims for overdue loans and unprovided advances, then the amounts due the various members of the mutual clearing bureau are fully transferred to their accounts. In those cases where the balance in the bureau account is insufficient to meet all the claims, the claims are met in the following order of priority: overdue loans to the bank and

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the unprovided part of an advance (still within the limit of 50 percent of the available balance), then the claims of subcontractors, and the remainder is then distributed among the other bureau members in proportion to the amounts due to them. If the trust instructs the bank to pay the bureau members funds for immediate needs, then such funds are paid in their entirety out of the bureau fund within the limits of 5 percent of the balance in the fund. Let us now illustrate the preceding in the following example.

The balance in the bureau account at the time a settlement is due is 2,800,000 rubles. The bureau members according to the balance report are supposed to receive 2,400,000 rubles, of which the supply office 1,400,000 the woodworking combine 500,000, the transportation office 100,000 and subcontractors 400,000 rubles. Overdue payments on bank loans amount to 300,000 rubles and the unprovided part of an advance 400,000 rubles. The trust gives the bank the instruction of paying 140,000 rubles to bureau members for their immediate needs, including 90,000 to the supply office and 50,000 rubles to the woodworking combine.

Since in this case the balance available in the bureau account is insufficient to meet all claims, the settlement proceeds as follows:

Not more than 50 percent of the balance, i.e. 1,400,000 rubles, may be used to extinguish overdue loan payments and unprovided advances. Since these two items in the given case amount to only 700,000 rubles, they can be fully met. If these two items exceed 50 percent of the balance, then overdue payments on bank loans are met first. The remaining amount of 2,100,000 rubles (2,800,000-700,000) is used first of all to meet the claims of subcontractors (400,000 rubles) and immediate needs (140,000). The remainder of 1,560,000 (2,100,000-400,000-140,000) must be applied to the amounts due to the other bureau members (outside of the contractors), or 2,000,000 rubles, i.e. in the ratio of 78 percent. The transfers to the accounts of bureau members are then as follows:

to the supply office $\frac{1,400,000 \times 78}{100} = 1,092,000 / 90,000$ for immediate needs;

to the woodworking combine $\frac{500,000 \times 78}{100} = 390,000 / 50,000$ for immediate needs;

to the transportation office $\frac{100,000 \times 78}{100} = 78,000$.

The branches of Prombank check periodically on the spot whether the invoices submitted to the mutual clearing bureau are correct, whether they are made out on time, on the calculation of mutual settlements, on agreement between the balance reports submitted to the bank and the bookkeeping records of the bureau, and take measures to eliminate any uncovered shortcomings. It is advised the State Bank experience be used when members of the mutual clearing bureaus must be granted temporary clearing credits.

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7. Organization of Transactions and the Strengthening of Payments Discipline of Contracting Construction Organizations and Projects

The planned system of the Socialist economy creates the best conditions for organizing transactions and makes it possible to insure the required payments discipline. Soviet economic organizations, including contracting construction organizations and projects, are able to meet their obligations to banks, suppliers and so forth in their entirety and on time when they fulfill the quantitative and qualitative indicators of the established plans.

The national struggle for the achievement of profits above plan and for the speedier turnover of funds that has become widespread in recent years insures the settlement of accounts not only on time, but in a number of cases even before the due date.

These early payments effected by leading enterprises throughout the nation deserve general support and encouragement since they are instrumental in providing a speedier turnover of funds in the economy and in freeing funds for the additional output of production. At the same time, however, individual economic organizations still are guilty of failure to make payments, a failure that can be ascribed to infractions of the payments discipline.

The banks must endeavor to organize transactions in the most rapid and accurate way possible so as to eliminate or reduce as much as possible any debits and credits. This aim is supported by the system of settling accounts on the mutual claims principle, which should be further expanded. But this is not sufficient to end failure to make payments.

The investment banks are able to determine the reasons why debts to suppliers arise for performed work and are able to take measures designed to reestablish the purchasers' ability to meet payment obligations. For example, failure on the part of contractors to pay for deliveries on time often results because the contractors themselves have not been paid for performed work by the clients, and that in turn may be the result of overdue documentation of the performed work or the overdue presentation of bills. Failure on the part of the construction projects to make payments may arise in the fact that the enterprises have failed to contribute their own funds to construction as provided by plan. It often happens that failure on the part of both construction projects and contractors to make payments results from the diversion of funds into above-plan reserves of material resources and the extinction of debts. Failure to make payments may result from a general lack of funds on the part of contractors, the existence of financial losses and so forth; improper distribution of the working capital among contractors may also be one of the causes of failure to make payments.

The careful and systematic study of the payment schedule of projects and contractors and the taking of necessary measures to insure the timely settling of accounts are major tasks of bank operations.

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The investment banks are not only executors and organizers of accounts in construction, but also state controllers of these accounts. The construction projects settle their accounts for performed work and for the delivery of materials (if construction is handled by the so-called economic method) from funds provided by the banks in the nature of nonreturnable investment financing or long-term credit. The contractors, on the other hand, settle their accounts with suppliers largely from funds received from their clients in the form of advances or in the form of payment for performed work and also with the aid of short-term bank credits. The investment banks are therefore charged with careful and systematic control of the transactions of projects and contractors and must take measures designed to prevent failure to make payments. This in turn requires familiarity with all financial and economic operations of the projects and the contracting organizations.

Payments discipline can be strengthened and failure to make payments can be prevented or eliminated by the banks if they see to it that: projects are provided with the required designs and estimates dossier; enterprises, trusts and main administrations pay their own funds allocated to capital investments on time as provided by plan; material reserves of projects and contractors are in good condition; completed construction and installation work is properly documented on time; financial work is being properly handled by projects and contractors; financial and cost estimate discipline is being observed; uneconomical operations are eliminated, the work of the investment banks themselves is accurately organized and the best forms of transactions are being used.

Investment banks can further speed transactions by granting additional short-term credits on favorable terms to projects and contractors who have fulfilled their volume and cost plans and have well organized their finances. On the other hand, if projects are found to mismanage their finances, the investment banks are in a position to apply financial sanctions, i.e. they stop the financing of the projects. In this case it is up to the banks to take measures designed to eliminate the mismanagement and to resume financing and re-establish the projects' ability to meet obligations. (Payments for the delivery of equipment do not cease even when financial sanctions for mismanagement are being applied).

The payment documents presented to the bank for payment are kept in special files, analysis of which can also help in working out the measures necessary to eliminate failure to make payments. At the present time, Prombank keeps three such files: one for payment documents that are still not due, a second for all overdue payment documents that have acquired the force of executive documents, as well as all executive, legal and arbitration orders, a third for documents that have not been paid because of infractions of financial control requirements (absence of cost estimates or exhaustion of the cost estimate limit and so forth).

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CHAPTER VII

THE WORKING CAPITAL OF CONTRACTING CONSTRUCTION-INSTALLATION ORGANIZATIONS AND CONSTRUCTION PROJECTS

1. Structure of the Working Assets of Contracting Organizations

As we have stated previously, construction can be carried out by the contracting or the economic method, or a mixed method. To carry out their work, contractors and construction projects therefore need both fixed and working capital. The working capital of contracting organizations consists of the value of the working capital (basic and other materials, prefabricated construction parts and subassemblies, and so forth) and the circulating capital (monetary funds and funds in accounts).

In a Socialist economy, the movement of material funds and the magnitude of the necessary reserves are set by plan, which is based on a study and generalization of the work of the best enterprises with due attention given to the special aspects of the circulation of funds in various branches of the national economy.

The organization and sources of the working capital of contracting organizations and projects differ. In the first place, contracting organizations are permanently operating enterprises with an uninterrupted process of production, while construction projects operating by the so-called economic method limit their process of production to the work to be done on a certain construction site. Secondly, the productive functions of contracting organizations are limited to the performance of construction and installation work, while construction projects engage in an entire complex of capital work, including in addition to construction and installation work also the acquisition of equipment, geological exploration and other operations. We will therefore examine separately the organization of the working capital of contracting organizations and construction projects.

The organization and structure of working (as well as of fixed) capital in the construction industry (contracting construction and installation organizations) are dictated by the technical and economic aspects of this branch of material production. The production of the construction industry is as a rule not of the mass-production type that is concentrated in a certain place; its production sites keep changing and the production process itself, even with the development of speed-up methods, is relatively prolonged.

The absence of a fixed production site requires special mobility of the means of production, which should be designed for rapid adjustment to new working conditions in new production sites. For example, tow-thirds of the fixed capital of construction-installation trusts consists of construction machinery and means of transportation, i.e. mobile capital. The fixed capital of the construction industry, like that of other branches of the economy, keeps growing rapidly from year to year. However, the ration of fixed to working capital in the construction industry varies from that in other branches of the economy.

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While in the industry of the USSR as a whole, fixed capital makes up about 75 percent and working capital 25 percent, in the construction industry fixed capital in spite of its steady growth makes up only 40-50 percent.

The advantages of the Socialist economic system make it possible to carry out the production process with a minimum of working capital.

The organization of the working capital of contracting organizations varies from that in industrial enterprises in that it is reflected both in the structure of the assets and in the make-up of the financial sources of the construction organizations.

Industrial enterprises must insure a continuous production process and use the funds allocated to them by the state to create the necessary reserves of raw materials and supplies. Although these reserves do not enter directly in the production process, they are a necessary prerequisite and form part of the production sphere of operations. Subsequently the acquired raw materials and supplies do enter in the production process, which results in finished output that is then available for sale; with the funds realized from this sale, more supplies are acquired and the working capital thus completed its full circuit.

The circuit of the funds of contracting construction organizations is quite different. The contracting organizations, like the industrial enterprises, use the funds allocated to them for the purchase of the necessary supplies. Then the supplies enter in the production process. As construction items are completed, the client pays the contractor for the completed work. The funds thus obtained are used by the contractor for the purchase of more materials.

The working assets of industrial enterprises can be divided into the following groups: (1) productive reserves; (2) funds involved directly in the production process (incompleted production); (3) finished products; (4) money and account items. The first three groups are standardized, while the money and account items are not standardized.

The structure of the standardized assets of the contracting construction organizations varies somewhat from the foregoing. These organizations lack altogether one of the group of assets of the industrial enterprises, namely the finished products. Instead, standardization prevails among the contracting organizations with respect to the remainder of money funds (including the balance in clearing accounts and letters of credit) and the funds in statements of performed work. Standardization of these items is explained by the existing system of billing for performed work (every 10 days) and especially by the fact that in contrast to industrial enterprises contracting organizations do not receive any special short-term credits for the making of letters of credits and special accounts or for their transactions with their clients.

The standardized assets of contracting construction organizations can be grouped as follows:

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I. Productive Reserves

1. Basic materials
2. Other materials, including fuel and fodder
3. Low-value and rapidly depreciating items
4. Prefabricated construction parts and subassemblies
5. Reserves of auxiliary agriculture

II. Incompleted Production

1. In construction-installation work
2. In auxiliary enterprises that do not carry their separate accounts

III. Other Standardized Assets

1. Cash, clearing accounts and other monetary items
2. Letters of credit and special accounts
3. Outlays subject to distribution
4. Accounts receivable for performed work

The relative data on the structure of standardized assets of contracting construction organizations and other branches of industry, in particular, the machine-building industry, are given below (as of 1 January 1940) (See Sovetskiye finansy /Soviet Finances/, No 4, 1948, page 14):

Industry	Productive Reserves	Incompleted Production	Finished Production	Other Standardized Assets	Total
General Machine Building	46.8	33.9	11.5	7.8	100
Heavy Machine Building	40.0	44.0	11.9	4.1	100
People's Commisariat of Construction	57.7	4.0	--	38.3	100

These data show that in the machine-building industry standardized assets consist chiefly of goods and materials, while in the construction industry goods and resources make up less than two-thirds, with more than one-third consisting of other standardized assets. The low share of incompleted production in the construction industry is due to the existing system of billing for performed work by completed parts of construction items.

The chief role in the structure of standardized assets of contracting construction organizations is played by productive reserves and accounts receivable from clients for performed work, both of which make up 70-80 percent of all standardized assets.

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It should be borne in mind that the smaller the remainder of working capital the speedier is the turnover of funds and the greater is the volume of work that can be accomplished with the available capital.

2. Method of Standardizing the Working Assets of Contracting Organizations

The task of speeding the turnover of funds calls for constant improvement in the practice of standardizing both individual elements of the working capital and the total amount of working capital.

The norms of working assets for contracting organizations are generally established in percent of the value of the construction-installation work to be performed.

Norms for productive reserves are calculated in percent of the annual program and depend chiefly on previously reported data; in a case of major changes in the expected work plan, the necessary corrections are made in these data.

Norms for basic materials are calculated in percent of the annual work plan on the basis of, first, the share of these stated materials in the value of the annual volume of construction-installation work and, second, the required reserve of these materials in terms of days.

The share of the materials in the total volume of work depends chiefly on the structure of the planned work. For example, for the fulfillment of earth-moving operations, the need for materials is very limited -- not more than 10-15 percent (chiefly in the form of timber supports). On the other hand, for the fulfillment of reinforced concrete work, the share of materials may amount to 70-75 percent.

A major factor affecting the magnitude of the required material reserves is the method adopted in the construction work. For example, in the speed-up method a number of operations are performed simultaneously and a large range of reserve materials is required for a relatively short time.

Of major importance in determining the magnitude of the reserves (in days) necessary to insure the uninterrupted work of contracting organizations are the frequency and the regularity with which materials are delivered and the conditions of their manufacture and transportation. If, say, by the terms of the contract cement arrives only once a month, then the required reserves should amount to 30 days. In the calculation of the norms (in days) necessary to insure uninterrupted production, account must also be taken of the length of time materials are en route (from the time they are paid for until they arrive) and of the emergency reserve. Thus, if the interval between deliveries is 30 days, and the length of time the materials are en route (after payment) is 5 days and the emergency reserve is for 3 days, then the total reserve in days should be 38 days. When necessary, this reserve can be enlarged by adding the number of days required to prepare the material for use (for example, the assembling of prefabricated parts).

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Since the conditions of delivery and other factors affecting the magnitude of the norms vary for different materials, norms must be calculated for each material or for each group of materials. This is also advisable because some of the materials are being produced in auxiliary enterprises and are delivered to the construction site on a daily basis and need virtually not be accumulated in reserves.

According to data reported by the contracting organizations, the share of materials in the total value of performed construction-installation work is 50-60 percent and the average material reserves 50-60 days.

Let us illustrate how the norms for individual elements of the working assets are calculated.

Let us assume that the annual program of the contracting organization involves 7,000,000 rubles worth of construction-installation work, of which 60 percent is made up of the cost of materials (without prefabricated construction parts).

In this case, the 50-day reserve norm of basic materials would be:

$$\frac{7{,}000{,}000 \times 60 \times 50}{100 \times 360} = 583{,}300 \text{ rubles or } 8.3 \text{ percent of the work program.}$$

If the share of basic materials in the total annual work program were 30 percent instead of 50 percent [probably misprint for 60 percent], which can happen for example in the case of large earth-moving operations, then the norm would be:

$$\frac{7{,}000{,}000 \times 30 \times 50}{100 \times 360} = 291{,}700 \text{ rubles or } 4.2 \text{ percent of the annual program.}$$

The norm for fuel, fodder and other materials is calculated as 22-27 percent of the value of the reserve norm of basic materials. Thus, in our example, if the basic materials norm is 583,300 rubles, the norm for other materials (taking 24.7 percent) would be:

$$\frac{583{,}300 \times 24.7}{100} = 144\,000 \text{ rubles or } 2.1 \text{ percent of the annual volume of construction-installation work.}$$

A major part of the total material reserves of contracting organizations is taken up by low-value and rapidly depreciating items, such as special clothing and tools, and production and domestic utensils.

The reserves of these items vary from one contractor to another. Reserves of tools and production utensils are usually greater in installation organizations than in general construction organizations. As for domestic utensils, their reserves are generally greater in general construction organizations and depend on the number of beds in dormitories. The reserves of special clothing depend on the nature

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of the work to be performed.

The norm of a given item can be calculated most accurately by using the value of a set of items (special clothing, tools) per worker and the rate of depreciation. Reserves of low-value and rapidly depreciating items make up an average of 3-4 percent of the annual program of construction-installation work.

In our example, the norm for low-value and rapidly depreciating items would be:

$$\frac{7,000,000 \times 4}{100} = 280,000 \text{ rubles.}$$

As far as prefabricated construction parts and subassemblies are concerned, their norms are usually calculated for three months' use and payment to the suppliers is effected within those limits.

If the share of prefabricated parts in the total volume of construction-installation work is 10 percent, then their normal three-month reserve would be 2.5 percent of the annual work program, or in our example:

$$\frac{7,000,000 \times 2.5}{100} = 175,000 \text{ rubles.}$$

Industrialization of the construction business requires the maximum use of prefabricated parts and subassemblies, which in turn raises the amount of assembly and installation work on the construction site. In that case the share of the reserves of prefabricated parts would increase at the expense of the reserves of materials.

The magnitude of the norm for incompleted construction and installation work depends directly on the method of delivering the completed work to the client and effecting the accounts. At the present time, the contractors deliver to the client completed parts of construction items. It follows that the larger the construction items, the greater would be the share of incompleted production, all other things being equal. It also follows that if accounts cover entire construction items (rather than their component parts), the incompleted production share would be even greater.

It must be remembered that although completed parts of construction items are being delivered to the client they still do not contribute an increase to the fixed capital of the national economy. These completed parts of construction items upon delivery to the client are regarded by the latter as incompleted capital investments. Only after the construction of an entire item (say, a workshop) has been completed, is it put into operation and is it added to the fixed capital of the enterprise. Therefore, a reduction of the length of construction time of items as a whole is of tremendous economic importance.

Items that are completed in less than three months are delivered by the contractors to the clients only upon their full completion and therefore completed parts of such items are still included in incom-

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pleted production.

The magnitude of incompleted production depends on the make-up of the construction items to be completed and the length of construction time on each item. The length of construction time in turn depends on the quantity and degree of complexity of the construction operations.

If, for example, the annual volume of construction-installation work is 10,000,000 rubles and the length of time required for the completion of all work on the construction items is six days, then the norm for incompleted construction would be:

$\frac{10,000,000 \times 6}{360}$ = 166 600 rubles, or 1.6 percent (approximately) of the annual volume of construction-installation work (Because of the small magnitude of the remainder of the incompleted production there is actually no need to take account of the gradual growth of losses).

However, generally the norms for incompleted production are calculated on the basis of the preceding period.

Let us assume that during the preceding period the average remainder of incompleted production (on the basis of the balances on the 1st of each month) was 180,000 rubles and the average monthly volume of construction and installation work was 900,000 rubles. Therefore, the average daily volume of completed construction and installation work during the preceding period was:

$\frac{900,000}{30}$ = 30,000 rubles.

But since the average remainder of incompleted production was 180,000 rubles, the average length of construction time was:

$\frac{180,000 \text{ rubles}}{30,000 \text{ rubles}}$ = 6 days.

If the structure of the expected work program during the coming year remains substantially unchanged, then these data can be used in calculating the norm for the following year. In our example, the norm would be:

$\frac{7,000,000 \times 6}{360}$ = 116,700 rubles, or 1.6 percent of the annual work program.

It should be borne in mind that the actual remainder of incompleted production in construction and installation work varies from 0.5 to 2 percent.

As far as the norm for the incompleted production of auxiliary enterprises (that do not keep their own accounts) is concerned, and the norm for reserves of any auxiliary agriculture (if the latter does not form part of the workers' supply department), these are based on

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the actual working conditions of these enterprises and on their programs.

The norms for the incompleted production of auxiliary enterprises are set at 15 percent of their annual production program.

Norms for outlays subject to distribution are set on the basis of reported data at 0.3-0.5 percent of the annual volume of construction and installation work. These outlays consist chiefly of expenses for the construction of temporary installations that are used until the completion of construction and also of expenses involved in hiring workers.

As we said above, the practice of planning the working assets of contracting construction organizations also envisages norms for money funds (including letters of credit and special accounts). This norm is set at one percent of the annual volume of construction and installation work.

The standardized working assets of contracting construction organizations also include accounts receivable from clients for completed work. These accounts are settled every 10 days. Accordingly this norm is set in the amount due to the contracting organization for work completed in the course of 10 days, i.e. 1/36 of the annual volume of construction and installation work, or 2.8 percent. In our example, where the annual program of construction and installation work amounts to 7,000,000 rubles, the norm for accounts receivable from the clients would be:

$$\frac{7{,}000{,}000 \times 2.8}{100} = 196{,}000 \text{ rubles.}$$

Thus, the total norm of working assets in our example, taking the annual work program to be 7 million rubles, would be:

	In percent	In thousands of rubles
Basic materials	8.3	583.3
Other materials	2.1	144.0
Low-value and rapidly depreciating items	4.0	280.0
Construction parts and subassemblies	2.5	175.0
Incompleted production on construction and installation work	1.6	116.7
Money funds	1.0	70.0
Outlays subject to distribution	0.5	35.0
Accounts receivable from clients for completed work	2.8	196.0
	22.8	1,600.0

If there are auxiliary enterprises and reserves of auxiliary agriculture, the appropriate amounts are also added. If, say, the capital requirements for that purpose are 15,000 rubles, then the total norm would be 1,615,000 rubles.

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Both for the contracting organization as a whole and for individual items, the norm is calculated in percent of the annual work program, i.e. on the basis of even working capital requirements throughout the year. In those cases, where because of the seasonal increase of work or the need for seasonal purchases of certain types of materials, material reserves in excess of the norms must be created, the contracting organizations are granted short-term credits for that purpose.

3. Financing Sources of the Standardized Working Assets of Contracting Construction and Installation Organizations

In contrast to other branches of industry where the financing sources of standardized assets are only the working capital and stable liabilities (in the machine-building industry also short-term bank credits), the contracting organizations dispose of the following sources: (1) their own working capital; (2) the so-called stable liabilities, which are tantamount to their own funds; (3) advances obtained from clients; (4) funds obtained from clients for the payment of prefabricated parts and subassemblies (to the extent of three months' need).

With a view to introducing economic accountability into the work of the construction organizations and strengthening state control over the fulfillment of their plans, the government decided in 1933 that the working capital of these organizations would consist of their own funds and of advances obtained from clients. It also set the magnitude of these funds and their special purpose. Although subsequent government decisions changed the magnitude of the working capital and the advances, the principle that the working capital of the contracting organizations be made up of their own funds and of advances received from clients has remained in effect to the present time.

Why does the organization of the working capital of the contracting organizations differ to such an extent from that of the other branches of industry? It is because contracting organizations work only for definite clients, who are charged with the control over the fulfillment of the work that they have ordered. In view of the length of the production process and the need for strengthening control on the part of the client, the government decided on this method of organizing the working capital of the contracting organizations, which in effect played a major role at the time when the construction industry was set up as an independent branch of industry.

Existing directives of the Ministry of Finance USSR envisage the advances of clients as designed for the creation of standardized reserves of basic materials and incompleted production of construction and installation work. In practice, therefore, the norms of these items are set at the time the amount of the advance is agreed on in the contract. Funds submitted by the clients for the payment of prefabricated parts are used by the contractors to cover their outlays in accumulating reserves of these items. All other standardized assets are covered from the funds and the so-called stable liabilities of the contracting organizations themselves.

The following shares of their own working capital contributions

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were set up in 1936 for contracting construction organizations: for industrial construction organizations working on a single construction site -- 10.3 percent of the annual production program, and for those working on several construction sites -- 11.7 percent; for residential construction trusts -- 11.3; for specialized and installation trusts -- 14 percent In connection with the recalculation of all construction-installation work (as well as of all capital work) in 1945 prices, the percentages listed above were reduced by 12-15 percent as of 1 January 1946.

This working capital (which includes the so-called stable liabilities) is used to cover the remainder of the following standardized asset items: other materials; low-value and rapidly depreciating items; money funds; outlays to be distributed; accounts receivable from clients for performed work; reserves of agriculture and the remainder of incompleted production in auxiliary enterprises that do not keep their own accounts.

The stable liabilities, i.e. funds that can be used legally by the contracting construction organizations on a steady basis, include:

carry-over wage indebtedness to workers and employes, calculated (in accordance with the established wage pay periods) in terms of a 7-day wage bill;

carry-over indebtedness with regard to deductions for social security in terms of the established deduction percentage (5-6 percent) of the 7-day wage bill;

a reserve of impending payments, largely for holidays of workers and employes, calculated on the basis of previously reported data and corrected for changes in the wage bill;

accounts payable to suppliers on accepted invoices in terms of 25 percent of the total debt (the rest must be taken into account in the calculation of the advance and the determination of the amount of credit).

Thus, if the wage bill of a contracting organization with an annual work program of 7,000,000 rubles is 500,000 rubles in the fourth quarter and the volume of inter-city deliveries of materials for the entire year is 1,500,000 rubles, the stable liabilities would be:

Carry-over wage indebtedness	$\frac{500,000 \times 7}{90}$ =	38,900 rubles
Deductions for social security	$\frac{38,900 \times 6}{100}$ =	2,300
Reserve of impending payments (based on data reported for the past year with corrections for changes in the wage bill)		17,000

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Accounts payable to suppliers ($\frac{1,500,000 \times 7}{360} = 29,100$)	$\frac{29,100 \times 25}{100}$	=	7,200
	Total		65,400 rubles

As we stated above, advances furnished by the clients (their limit was set by the government in 1938 at 15 percent of the annual contracted volume of construction-installation work) are used to cover the standardized reserves of basic materials and the incompleted construction and installation work. (In those cases where the contractors complete construction items within less than three months and receive from the clients partial payment (up to 90 percent of the cost of the work) without making delivery, the amount received from the clients on intervening bills must be deducted from that part of the advance which is allocated to incompleted production).

Thus, the financing sources used to cover a contracting organization with working assets totaling 1,615,000 rubles would be:

Own working capital	674,600 rubles	or 9.6 percent of the annual program
Stable liabilities	65,400	0.9
Clients' advances	700,000	10.
Clients' funds for the acquisition of a three-month reserve of prefabricated items	175,000	2.5
	1,615,000	23.0 percent

The available working capital can be properly distributed among the various construction organizations since ministries and main administrations have the right to redistribute these funds among the trusts. Thus, main administrations have the right to instruct the banks to debit the clearing accounts of organizations under their jurisdictions. Ministers have the right to redistribute excess working capital among the organizations under their jurisdiction, both at the end and in the middle of the year.

If the working capital at the disposal of a contracting organization at the start of the year is less than the required amount (in our example 674,600 rubles), then it must be replenished at the expense of the profits of the plan year, and if that should be insufficient, at the expense of the funds of the main administration or the budget. If the working capital available at the start of the year exceeds the stated amount, the excess amount is returned to the budget (or may be redistributed by the main administration). The required changes in the amount of own working capital and stable liabilities of construction organizations are also reflected in their balances of outlays and income.

The contracting construction organizations are fully responsible

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for maintaining and replenishing the fixed and working capital granted to them by the state.

4. Calculation of the Turnover Rate of Funds of Contracting Organizations

One of the key indicators of the work of construction organizations and other industrial enterprises is the turnover rate of funds. The turnover rate is calculated in days and is the time in which the total working capital completes one circuit. A high turnover rate means a greater volume of construction-installation work per ruble of working capital. An increase in the rate releases funds for greater rates for Socialist reproduction.

Indicators of the turnover rate of construction organizations are calculated on the basis of the cost of the construction-installation work delivered to and accepted by the clients and the actual remainder of working capital in the reported balances. The state budget for 1950 envisaged an increase in the turnover rate of working capital in the national economy by 3.3 percent. Control over the observance on the part of the contracting organizations of the established turnover rate norms and their acceleration is one of the key tasks of the investment banks.

The turnover rate is calculated both for the assets of contracting organizations as a whole and for the standardized assets separately. The makeup of standardized assets of contracting organizations (and the method of calculating their norms) have been discussed above. The nonstandardized assets include overdue accounts receivable from clients for performed work and other debts. Nonstandardized assets also include: excess amortization payments to the bank; outlays for capital repairs and own capital investments made over and above the available financing sources; an increase in the indebtedness of workers and employes on loans for individual residential construction and other needs over and above loans obtained from the special banks for that purpose; overexpenditures from special funds and other special sources; losses suffered outside of the plan.

The turnover rate in days is the ratio of the average remainder of working capital for a given period to a day's turnover of work to the clients. The turnover rate is calculated by means of the following formula:

$$AR = \frac{W}{D}, \quad \text{or} \quad \frac{AR \times D}{W}$$

where:

AR is the average remainder of working capital (assets);
W is the cost of the work delivered to and accepted by the client;
D is the number of days in the given period -- 90 for a quarter or 360 for a year.

Thus, if the cost of all construction-installation work (W) delivered to and accepted by the client in the course of a year is 3,600,000 rubles and the average remainder (AR) of working capital (assets) was 900,000

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rubles throughout the year, the turnover rate of funds would be:

$$\frac{900{,}000 \text{ rubles} \times 360 \text{ days}}{3{,}600{,}000 \text{ rubles}} = 90 \text{ days.}$$

The number of circuits performed by the funds in the course of a year (in our case 4) is called the turnover rate coefficient.

Actual average remainders of working capital are calculated; for a month -- by adding the remainders at the start and at the end of the months and dividing by two; for a quarter -- by adding the three average monthly remainders and dividing by three; for a year -- by adding the four average quarterly remainders and dividing by four.

For example, the working capital remainders were: as of 1 January 200,000 rubles, as of 1 February 240,000 rubles, as of 1 March 250,000, and as of 1 April 230,000 rubles.

In this case the average monthly remainders are (in thousands of rubles):

for January $\frac{200 + 240}{2} = 220$

for February $\frac{240 + 250}{2} = 245$

for March $\frac{250 + 230}{2} = 240$

The average quarter remainder for the first quarter would be:

$$\frac{220 + 245 + 240}{3} = 235{,}000 \text{ rubles.}$$

If the average quarterly remainders, similarly calculated, are 265,000 rubles for the second quarter, 245,000 rubles for the third quarter and 255,000 rubles for the fourth quarter, then the average annual remainder would be (in thousands of rubles):

$$\frac{235 + 265 + 245 + 255}{4} = 250{,}000 \text{ rubles.}$$

It should be borne in mind that in industry, where money funds are not standardized, the funds remaining the clearing accounts are not included in the actual remainders of working assets. Therefore, in calculating the turnover rate of all funds of contracting organizations, the amounts in clearing accounts must be neglected altogether. These amounts are included within the limits of the norms only in the calculation of the turnover rate of the standardized assets (in comparison with the plan). The funds remaining in a special account based on advances must be neglected altogether.

In any analysis of the turnover rate of funds of a contracting organization for a given period (a month, a quarter or a year), the turnover rate must be compared with the indicators of the preceding period and the corresponding period of the preceding year, as well as with the planned indicators.

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An actual turnover rate is compared with a planned rate only with respect to standardized assets. When such a comparison is made for contracting organizations that have a seasonal accumulation of construction materials, fodder and fuel. The planned norms must be increased by the seasonal reserves within the limits of the remainders of loans actually granted by the special banks for that purpose. Nonseasonal remainders of materials in excess of the norm, even though credited by the bank (in the form of guaranteed credit, at the expense of loans granted for less than a quarter, and so forth) are not added to the norms.

The average planned remainders of standardized assets are calculated on the basis of the norms and the seasonal reserves in the amounts stated above: for a quarter - by adding the remainders at the start and the end of the quarter and dividing by two, and for a year - by adding the average quarterly norms and the seasonal reserves and dividing by four.

An increase in the turnover rate of the working capital of construction organizations results in the release of this capital. If we want to calculate the funds released as the result of an increase in the turnover rate for a given period (say, a quarter), we must calculate the working capital required for the fulfillment of the actual volume of work delivered to and accepted by the clients in the given period on the basis of the turnover rate in days during the preceding period and compare these data with the actual working capital (assets) available.

Thus, if the volume of work delivered to and accepted by the clients was 1,200,000 rubles in the first quarter and 1,800,000 rubles in the second quarter, and the average remainders of working capital during the first quarter 1,000,000 rubles and during the second quarter 1,300,000 rubles, then the funds released in the course of the second quarter amount to 200,000 rubles, as follows:

Turnover rate during the first quarter

$$\frac{90 \text{ days} \times 1{,}000{,}000 \text{ rubles}}{1{,}200{,}000 \text{ rubles}} = 75 \text{ days.}$$

Working capital required for the fulfillment of the second quarterly plan, based on the actual turnover rate in the first quarter:

$$\frac{1{,}800{,}000 \text{ rubles} \times 75}{90} = 1\,500{,}000 \text{ rubles}$$

Amount of released funds:

$$1{,}500{,}000 - 1{,}300{,}000 = 200{,}000 \text{ rubles.}$$

This result can also be obtained in another way:

The actual turnover rate during the second quarter was:

$$90 \text{ days} \times \frac{1{,}300{,}000}{1{,}800{,}000} = 65 \text{ days.}$$ The turnover rate during the

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second quarter is therefore 10 days shorter than during the first quarter, which for an average daily turnover of 20,000 rubles $(\frac{1,800,000}{90})$ yields 200,000 rubles.

That is how the actual turnover rate is compared with the planned rate.

Study of the changes in the indicators of the turnover rate for a number of periods and correlation of these indicators among a number of construction organizations may make it possible to uncover the reasons for a slow turnover rate in some organizations and suggest measures designed to speed up the rate.

The data presented at the start of this chapter on the structure of the working assets of contracting construction organizations show that the most important working assets after reserve materials are other standardized assets, in particular, accounts receivable from clients for performed work. An increase in the turnover rate of funds invested in material resources and current transactions is the most important and immediate task of the construction organizations. The investments banks should adopt all measures required to achieve a maximum speed-up of transactions, in particular the wider utilization of mutual clearing bureau transactions.

It should be noted that leading groups of builders have made pledges to speed up the turnover rate and thus release additional funds. The investment banks face the task of assisting in every way possible in the fulfillment of these pledges and of uncovering additional ways of speeding the turnover rate. In addition, the banks should take all financial sanctions envisaged by the plan toward contracting organizations guilty of overstocking, of excessive indebtedness and other infractions that tend to slow the turnover rate of funds.

5. The Working Assets of Construction Projects

In conducting construction-installation work by the so-called economic method, the construction projects, like the contracting organizations, must dispose in addition to their fixed capital (construction machinery, transportation and so forth) of working capital (minimum reserves of basic and other materials, prefabricated construction parts and so forth. Any calculation of the required amount of such reserves must be based on the norms of the contracting organizations and on the special aspects of financing construction work by the economic method.

If construction-installation work is carried out by the economic method, the projects are financed either on the basis of individual outlays or on the basis of completed work, i.e. on the same basis as the contracting organizations. If individual outlays are financed, then the projects are paid for the acquisition of materials, the wage bill, and so forth, directly from the financing fund made up of appropriations allocated to construction. In that case, the project has no remainders of incompleted construction and installation work and no clearing accounts, and the standardized remainders of money funds in-

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clude only funds in letters of credit and in special accounts. Consequently, the total amount of minimum working assets must be smaller than in contracting organizations performing the same volume of work.

Projects using the economic method need far smaller reserves of low-value and rapidly depreciating items than contracting organizations, since they do not operate on a permanent basis.

Projects operating by the economic methods and financed on the basis of completed work handle their accounts in the same manner as the contractors (i.e. for completed parts of construction items) by having the corresponding amounts transferred from the financing account to the clearing account of the chief of construction (or of the capital construction department). Therefore the minimum remainders of incompleted production and money funds of such projects correspond to those of the contracting organizations.

When projects are financed on the basis of completed work, the funds in accounts receivable for completed work exceed the corresponding funds in contracting organizations. This is due to the fact that such accounts are settled once a month, rather than every 10 days, and that the accounts are payable to the construction project (or the capital) construction department) by the enterprise, which is accumulating an equivalent debt. Consequently, in the project as a whole no demand arises for funds to cover accounts receivable for completed work. In addition, projects using the economic method may, like the contracting organizations, require funds for incompleted production in their auxiliary enterprises. This is usually set at 15 percent of the annual work program. Consequently, the amount of working assets required to fulfill the same work program (in our example above, 7,000,000 rubles) by the economic method and by the contracting method will vary, as shown in the following table.

Working Assets	Contracting Construction Organizations		Projects Financed on the Basis of Outlays[1]		Projects Financed on the Basis of Completed Work	
	Amount	Percent	Amount	Percent	Amount	Percent
Basic materials	583.3	8.3	583.3	8.3	583.3	8.3
Other materials	144.0	2.1	144.0	2.1	144.0	2.1
Low-value and rapidly depreciating items	280.0	4.0	210.0	3.0	210.0	3.0
Prefabricated parts	175.0	2.5	175.0	2.5	175.0	2.5
Incompleted construction and installation work	116.7	1.6	--	--	116.7	1.6
Outlays subject to distribution	35.0	0.5	35.0	0.5	35.0	0.5
Money funds	70.0	1.0	35.0	0.5	70.0	1.0
Accounts receivable from clients	196.0	2.8	--	--	--	--
Total	1,600.0	22.8	1,184.0	16.9	1,334.0	19.0

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/Amount column is expressed in thousands of rubles; percent column is expressed in percent of the total annual work program/.

([1])This column has been added in this case only for illustrative purposes.

A construction project with an annual work program of 7,000,000 rubles would have to be financed on the basis of completed work).

Construction projects operating by the so-called economic method sometimes have part of the construction-installation work done by a contracting organization on a contract basis. In those cases the projects give the contracting organization an advance provided in the contract, but not exceeding 15 percent of the annual work program contracted for.

For example, if a project, in addition to its own work program of 7,000,000 rubles, asks a contracting organization to do 2,000,000 rubles' worth of work, with an advance agreed at 12 percent, then it would need additional funds of: $\frac{2,000,000 \times 12}{100} = 240,000$ rubles, as well as funds sufficient to pay for a three-month reserve of prefabricated parts and subassemblies.

The amount of working capital required by construction projects is not limited by the requirements of the established plan of construction and installation work. The capital investments of the construction project also cover: equipment that needs to be installed; the purchase of tools, means of transportation, and equipment that can be set up immediately, without the need of installation work; geological exploration work; outlays that do not expand the fixed capital, i.e. outlays for the maintenance of the director's office of the enterprise under construction, for the training of personnel of the future enterprise, for melioration and other land-improvement work, and so forth.

The structure of the individual types of capital investments varies in different branches of the economy. For example, in the machine-building industry a large part of the capital investments is absorbed by outlays for equipment that must be installed. A large amount of installation work is also required in capital investments in the chemical industry and in the construction of power plants. A different structure of capital investments prevails in residential construction.

To fulfill such capital investments as purchases, including the purchase of equipment that does not require installation and outlays that do not increase the amount of fixed capital, there is no need for creating special reserves (The cost of the equipment that does not require installation and other purchases is included in the amount of capital work completed as soon as such items are paid for and received). Reserves of equipment that do require installation should be created at the construction site at an early stage so that installation could begin as soon as the site is sufficiently prepared. On the other hand, however, excessive reserves of equipment should not be permitted to accumulate and such equipment should not be delivered too far ahead of

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time. Sometimes certain reserves of equipment must be accumulated because it arrives in parts to be assembled. Therefore the normal reserve of equipment requiring installation must be set separately for each construction project. As an average such reserves are generally calculated at not more than 2- percent of the annual needs. It should be borne in mind in this connection that the above applies only to equipment of domestic origin. For the purchase of imported equipment, the investment banks grant short-term credits to the projects and the remainders of the imported equipment are not included in the norms.

Let us now illustrate how the amount of normal working capital of a project is set up.

Let us assume that the annual plan of capital investments of the project is 35,500,000 rubles, having the following structure:

1.	Construction-installation work:	
	(a) performed by contractors	20 million rubles
	(b) performed by the economic method and financed on the basis of completed work	7
2.	Equipment that requires installation (of domestic origin)	5
3.	Purchases (including equipment that does not require installation)	3
4.	Outlays that do not increase the amount of fixed capital (maintenance of the director's office of the enterprise under construction, outlays for the training of personnel for the future enterprise, and so forth)	0.5
	Total	35.5 million rubles

Let us now calculate the required working capital for this project, making use of the norms listed above.

If we are to use the data listed in the preceding example, it appears that the working capital required for the fulfillment of construction-installation work by the project itself if it is financed on the basis of work completed is 1,334,000 rubles.

The reserves of domestic equipment should amount to 20 percent of 5,000,000 rubles, i.e. $\frac{5,000,000 \times 20}{100} = 1,000,000$ rubles.

In addition the project-client must give an advance to the contracting organization; at the rate of 12 percent, this advance would be:

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$$\frac{20,000,000 \times 12}{100} = 2,400,000 \text{ rubles.}$$

To that amount must be added the funds paid to the contractor for the creation of a three-month reserve of prefabricated parts.

If we use the data given in the calculation of the norms of working capital of a contracting organization and if we assume that this reserve is equal to 2.5 percent of the annual work program, then this item of the working capital of the project amounts to:

$$\frac{20,000,000 \times 2.5}{100} = 500,000 \text{ rubles.}$$

The normal remainders of working assets of the project as a whole amount to 5,234,000 rubles, of which 1,334,000 rubles are funds under the direct control of the chief of construction (or of the capital construction department, 2,900,000 rubles must be paid to the contracting organization, and 1,000,000 rubles are funds required by the director's office of the enterprise for the creation of equipment reserves requiring installation.

6. The Financing Sources of the Working Assets of Construction Projects

In the case of contracting organizations, the financing sources of the standardized working assets are their own working capital (including the so-called stable liabilities) and the clients' advances, seasonal rises in working assets being covered by special bank credits. Since contracting organizations are permanently functioning enterprises, it is quite natural that they should have their own working capital. Advances are granted by the clients for the entire period of contracted work and, as far as the contractors are concerned, are essentially stable in character.

The regulation of the amount of the contractors' own working capital and the granting of client advances in accordance with changes in the work program, as well as the granting of short-term credits for seasonal needs, tend to reduce to a minimum the material reserves needed for the fulfillment of the contractor's program.

When construction is performed by the so-called economic method, the need for material reserves is irregular and is limited to the period of work on the given site. The government does not regulate the amount of working capital of construction projects. The financing sources of the working assets of construction projects are only the stable liabilities and funds allocated for the construction of the corresponding items.

The stable liabilities in the so-called economic method are calculated in the same manner as in the case of the contracting organizations, except that the normal indebtedness to suppliers on accepted invoices is taken as the full amount (100 percent) rather than as 25 percent in the case of the contracting organizations. Moreover, if all or part of the construction-installation work is done by a contractor then the stable liabilities of the construction project also include the

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constant indebtedness of the contracting organizations in the amount of 2.8 percent of the annual contracted construction-installation work.

Making use of the calculations on Page 121 [of this translation], we obtain the following data.

The amount of stable liabilities of a construction project that performs 7 million rubles' worth of construction-installation work by the economic method should be:

Carry-over wage indebtedness	38,900 rubles
Deductions for social security	2,300 rubles
Reserve of impending payments (chiefly for holidays)	17,000 rubles
Accounts payable to suppliers (100 percent)	29,100 rubles
Total	87,300 rubles

If in addition the project contracted out an annual work program of 20,000,000 rubles, then its stable liabilities must include:

$$\frac{20,000,000 \times 2.8}{100} = 560,000 \text{ rubles.}$$

The stable liabilities further include the normal indebtedness to suppliers of equipment on accepted invoices.

If in the course of the year, inter-city deliveries of equipment amount to 3 million rubles, then the stable liabilities must include:

$$\frac{3,000,000 \times 7}{360} = 58,300 \text{ rubles.}$$

The total amount of stable liabilities of the project thus is 705,600 rubles (87,300 + 560,000 + 58,300).

Thus the financing sources of the working assets required by the project at the end of the year in the amount of 5,234,000 rubles should be:

Stable liabilities	705,600 rubles
Financing from budget appropriations, amortization, profits, and so forth	4,528,400 rubles.

If construction with an annual capital investment plan of 35.5 million rubles starts in a given year and is carried over into the following year, with the remainder of the working assets available at the start of the following year (with the exception of 705,600 rubles in stable liabilities) being 4,528,400 rubles, then the total amount

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of financing of such a project for the given year is:

35,500,000 / 4,528,400 = 40,028,400 rubles,

of which 4,528,400 rubles make up the so-called immobilization, i.e. the amount in excess of the capital construction plan.

If this construction began and ended in the given year, then the amount of financing would coincide with the amount allocated by the capital investment plan, or 35.5 million rubles.

If the construction was begun in the preceding year and the remainder of the working assets at the start of the year was 5 million rubles and if it ended in the current year, then the realization of a 20-million-ruble investment program would require only 15 million rubles in funds, since the other 5 million rubles must then be mobilized by the construction project itself.

Finally, if the stated project began in the preceding year, continued in the current year and was carried over into the following year, then the difference between the working assets remaining at the start and at the end of the year must be taken into account in calculating the amount of financing required for the current year.

In making this calculation, it must be borne in mind that payment for work performed in the last ten days of the preceding year must be effected in the course of the plan year and that work performed during the last ten days of the plan year must be paid for during the following year.

7. The Plan of Mobilizing Internal Resources.

If we are to determine the amount of planned mobilization (or immobilization) of internal resources for a year, we must know:

(1) the actual remaining working assets at the start of the year;

(2) the actual outstanding credit indebtedness at the start of the year;

(3) the standardized remainder of working assets at the end of the year;

(4) the amount of stable liabilities at the end of the year.

Let us examine these data in a number of alternatives (in thousands of rubles):

	Variant I	Variant II	Variant III	Variant IV
1. Actual remaining working assets at the start of the year	4,000	4,100	3,900	4,000

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2. Actual outstanding indebtedness to creditors at the start of the year	400	420	380	330
3. Standardized remainder of working assets at the end of the year	3,000	4,200	3,700	4,100
4. Stable liabilities at the end of the year	300	370	400	350

In the first alternative, the working assets must be reduced by 1,000,000 rubles (4,000,000 - 3,000,000), the indebtedness to creditors is reduced by 100,000 rubles (400,000 - 300,000), and the amount of mobilization of resources is 900,000 rubles.

In the second alternative, the working assets must increase by 100,000 rubles, indebtedness to creditors must drop by 50,000, and the amount of immobilization is 150,000 rubles.

In the third alternative, the working assets must drop by 200,000 rubles, indebtedness to creditors must rise by 20,000 rubles and the amount of mobilization is 220,000 rubles.

In the fourth alternative, the working assets must rise by 100,000 rubles, indebtedness to creditors rises by 20,000 rubles, and immobilization amounts to 80,000 rubles. (There are also cases where the assets of a project include material resources, in particular individual equipment, that cannot be used in the plan year. The indebtedness to creditors may also include amounts not subject to payment (for example, illegal investment of funds in the basic operations of the enterprise). All these factors must be taken into account when setting up plans for the mobilization of internal resources).

When the mobilization of internal resources is being planned for the following year (planning usually is done during the fourth quarter of the preceding year), use is made of the data reported as of 1 October and the data expected at the start of the following year. The formulation of the plan for the mobilization of internal resources is of course not limited to the arithmetical computations; the planning process must uncover any excessive materials at the projects, set up the specific make-up of debtor and creditor indebtedness and work out measures designed to eliminate the excess of materials and the existence of indebtedness. The mobilization of internal resources may be calculated in the following form (the amounts of standardized assets and stable liabilities are taken from the calculations made above).

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WORKING ASSETS (in thousands of rubles)

Name of Working Asset	Remainders: Actual as of 1 October 1949	Remainders: Expected as of 1 January 1950	Including remainders that cannot be achieved in 1950	Norms as of 1 January 1951	Increase (+) Decrease (-)
1. Equipment to be installed	2,000	1,400	100	1,000	-300
2. Basic materials, including prefabricated parts	870	810	--	758.3	- 51.7
3. Other materials	170	150	--	144.0	- 6.0
4. Low-value and rapidly depreciating items	200	190	--	210	+ 20
5. Outlays subject to distribution	38	35	--	35	--
6. Incompleted construction and installation work	130	120	--	116.7	- 3.3
7. Incompleted production of auxiliary enterprises	--	--	--	--	--
8. Money funds	80	75	--	70	- 5
9. Accounts receivable from contractors on advances	2,300	2,300	--	2,400	+100
10. Accounts receivable from contractors on paid parts prefabricated	450	450	--	500	+ 50
11. Accounts receivable from suppliers on the payment for equipment as it is being completed	--	--	--	--	--
Total standardized assets	6,238	5,530	100	5,234	-196
12. Other debtors	220	70	--	--	- 70

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13. Inter-balance transactions subject to distribution	60	30	--	--	- 30
Total assets	6,518	5,630	100	5,234	-296

The data in this table show that the construction project must in the course of the plan year reduce the remainders of equipment, basic and other materials, incompleted production and money funds by a total amount of 366,000 rubles; recover debts amounting to 100,000 rubles; increase the remainders of low-value and rapidly repreciating items (bringing them up to the norm) by 20,000 rubles; give the contracting organization an additional advance of 100,000 rubles and an additional amount of 50,000 rubles for the purchase of prefabricated parts.

With a total reduction of the remainders of some items amounting to 466,000 rubles and the total increase of the remainders of other items amounting to 170,000 rubles, the project must mobilize internal resources amounting to 296,000 rubles (466,000 - 170,000).

Let us now examine the change that must take place in the make-up and amount of the indebtedness to creditors:

INDEBTEDNESS TO CREDITORS

Remainders in thousands of rubles

Name of Item	Actual as of 1 October 1949	Expected as of 1 January 1950	Including those that need not be paid off	Stable liabilities as of 1 January 1951	Increase(+) Decrease(-)
1. Workers and employes, including reserves for holidays and social security deductions	42.0	48.2	--	58.2	+ 10.0
2. Suppliers on accepted invoices	82.0	82.4	--	87.4	+ 5.0
3. Suppliers on overdue invoices	45.0	35.0	--	--	- 35.0
4. Suppliers on unbilled deliveries	20.0	5.0	--	--	- 5.0
5. Contractors on bills for completed work	500.0	500.0	--	560.0	+ 60.0
6. Other creditors	220.0	110.0	--	--	-110.0

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7. Inter-balance transactions subject to distribution	85.0	45.0	20.0	--	- 25.0
Total	994.0	825.6	20.0	705.6	-100.0

The data above show that in the course of 1950 the project may increase (in connection with an increase in the contracted work) the normal (10-day) indebtedness to the contracting organization for completed work, increase up to the normal level the carry-over indebtedness to workers and employees and to suppliers on accepted invoices (a total of 75,000 rubles) and must extinguish the indebtedness to suppliers on overdue invoices and unbilled deliveries and to other creditors and to the basic operations of the enterprise on inter-balance transactions (a total of 175,000 rubles). Creditor indebtedness as a whole, therefore, must be reduced by 100,000 rubles in the course of the year.

The share of the mobilization of internal resources as a financing source of the capital investment plan in the financial plan of the project would thus be 196,000 rubles (296,000 - 100,000). That amount is envisaged in the financing limits (Form 5).

The mobilization of internal resources as a source of financing capital investments is calculated on the basis of changes in the working assets and the credit indebtedness. Therefore, the financing limits list in addition to the total amount of internal resources to be mobilized (or immobilized) the envisaged change (increase or decrease) in the working assets. Thus, in our example, the financing limits would say that mobilization of internal resources amounts to 196,000 rubles, including a reduction of working assets by 296,000 rubles. That would imply that the plan envisages an extinction of 100,000 rubles worth of creditor indebtedness. If the financing limits were to say that 230,000 rubles of internal resources were to be immobilized, including an increase in working assets by 200,000 rubles, it would imply that the financial plan of the project envisages the extinction of 30,000 rubles worth of creditor indebtedness.

The financing limits and the plan for the mobilization of internal resources are set up on an annual basis with a quarterly breakdown. Thus far, in discussing the methods used to determine the amount of mobilization of internal resources, we have based ourselves on the needs in material reserves in accordance with the annual work program, i.e. a uniform fulfillment and uniform needs of materials throughout the year.

Actually in practice the volume of work completed varies in different quarters of the year, with the greatest amount falling into the third quarter. In a number of cases, projects also require seasonal shipments of materials depending on the method of transportation (for example, the use of waterways for the shipment of lumber and so forth). For the seasonal accumulation of materials (in connection with a seasonal construction peak and shipments of materials), the contracting organizations are granted short-term bank credits. But the seasonal needs of construction projects must be taken into account when the quarterly plans for the mobilization of internal resources are being formulated.

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Thus, the annual plan for the mobilization of internal resources used as an example above would be broken down as follows by quarters (in thousands of rubles):

	1950 Plan	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Mobilization of internal resources	196	45	40	50	61
Including a reduction of assets by	296	80	60	50	106

The amount of working capital required by the projects is not regulated by the government and changes in the amount are only regulated by the plans for the mobilization (immobilization) of internal resources. In this connection, special importance must be attached to investment bank control over the proper planning of the mobilization of internal resources and the fulfillment of the terms of the plan.

8. Bank Control over the Fulfillment of Plans for the Mobilization of Internal Resources

Plans for the mobilization of internal resources aremade up by the construction projects, main administrations and ministries in terms of the indicators listed above. The task of the investment banks in this field consists chiefly in verifying: the data on the assumed remainders of working assets and creditor indebtedness at the start of the plan year (and making a correct assessment); the correct calculation of norms for individual working assets and stable liabilities; the justification of the calculations of the economic organizations regarding materials that cannot be sold and used by the project during the plan year; the correct planning of the amount to be mobilized (immobilized) by internal resources.

Any conclusions regarding the plans for the mobilization of internal resources of projects with corresponding calculations are submitted by the investment banks to the Ministry of Finance USSR and the Ministries of Finance of the union republics, and (in the case of kray, oblast and city projects) to the corresponding financial departments. The ministries and main administrations distribute their approved financing limits and assignments for the mobilization of internal resources among the individual projects. The financing limits set for the projects are communicated by the head offices of the investment banks to their branches.

In these financing limits, the assignments for the mobilization of internal resources are shown in the form of a balance, including changes in working assets. In this connection, the projects work out detailed plans for the mobilization of resources by individual items, list the materials and equipment available in excess, set deadlines for the sale (or utilization) of these surpluses, list the make-up of debit indebtedness, and set measures and dates for the recovery of the debts. The branch banks make a careful analysis of the project reports

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and use their own investigation data to verify the plans (schedules) made up by the projects for the mobilization of internal resources, following which the banks systematically check on the proper fulfillment of these plans.

The results of the fulfillment of plans for the mobilization of internal resources are calculated on the basis of project reports submitted at the start and the end of the given period. The results of comparing the reported data with the plan are shown in the following table.

WORKING ASSETS (in thousands of rubles)

Name of Item	Remainders At start of reported	Remainders At end period	Changes (increase (+) or decrease (-) Actual	Changes (increase (+) or decrease (-) Planned
1. Equipment to be installed (domestic)	1,400	1,150	-250	-300
2. Basic materials, including prefabricated parts	820	770	- 50	- 51.7
3. Other materials, low-value and rapidly depreciating items	350	372	+ 22	+ 14.0
4. Outlays subject to distribution	30	33	+ 3	--
5. Incompleted Production of which:	110	115	+ 5	- 3.3
Construction and Installation Work	110	115	+ 5	- 3.3
6. Money funds	80	75	- 5	- 5
7. Contractors on advances and prefabricated parts	2,750	2,800	+ 50	+150
8. Suppliers on payment for equipment as it is being completed	--	--	--	--
9. Other debtors and interbalance transactions	110	30	- 80	-100
Total	5,650	5,345	-305	-296
Creditor Indebtedness				
10. Workers and employes	43	50	+ 7	+ 10

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11. Contractors on bills for completed work	500	540	/ 40	/ 60
12. Suppliers on accepted invoices	83	90	/ 7	/ 5
13. Other creditors and inter-balance transactions	324	250	- 74	-175
Total	950	930	- 20	-100

The data of this table show the plan for the mobilization of internal resources has been overfulfilled, both in its entirety and with respect to a reduction of the working assets. However, the plan was overfulfilled in spite of the failure to liquidate fully the credit indebtedness as envisaged by the plan; that is a negative aspect and the project must be required to settle its accounts with all creditors.

With regard to the data on the fulfillment of the plan for the mobilization of internal resources at the expense of a reduction of the working assets, we note that fulfillment is largely due to the fact that the project did not pay its contractors the additional advances envisaged by the plan. In addition, the plan for a reduction in the remainders of equipment to be installed was underfulfilled (the remainder was reduced by 250,000 rubles instead of 300,000), as was the plan for the recovery of debts. The investment banks must uncover the reasons for the underfulfillment of the plan in individual items and on the basis of their investigation and calculations work out the necessary proposals for the project (These questions are treated in detail in the course on "Analysis of Economic Operations").

The liquidation of surplus reserves of materials, the reduction of the remaining incompleted production, and the liquidation of debit indebtedness reduce the needs of the projects for capital investments and thus release budgetary and other funds for the fulfillment of other capital investment plans.

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CHAPTER VIII

FINANCING OF CONSTRUCTION CARRIED OUT BY THE CONTRACTING METHOD

1. Organization of Contracted Construction and the Terms of the Contract

Contracted construction is carried out by permanently operating construction organizations that execute construction and installation work envisaged by the state plan on the basis of contract agreements.

The contracting construction organizations (trusts, construction-installation administrations and so forth) are the productive units of the construction industry, operate on the basis of economic accountability and constitute the basis of the mighty construction industry created in the USSR during the Stalinist five-year plans.

Contracted construction has become widespread in our country both before and after the war. At the present time about three-fourths of the total volume of construction-installation work is handled by contracting organizations on the basis of contract agreements.

Comrade Molotov as early as 1931 stressed the role and the importance of agreements in the Socialist economy: "The system of contract relationships is the best way of combining the economic plan and the principles of economic accountability.." (V. Molotov, V bor'be za sotsializm /In the Struggle for Socialism/, Partizdat, 1935, page 258).

The method of concluding contracts is described in the "Regulations on Contract Agreements in Construction", approved by the government in 1938. These regulations lay the basis for all basic relationships between the sides concluding agreements for construction-installation work to be performed by the contracting method.

The clients in the contracting method of production are enterprises and organizations (in the case of industrial construction, the director's offices of the existing or future enterprises) to whom appropriations for construction have been allocated.

The client is responsible for supplying the project with all documents required for its financing by an investment bank, including technical plans, cost estimates and working plans, which are transmitted to the contracting organization together with documents that grant the right to start construction (permit to build, land allotment certificate, plan of underground communications and installations and so forth). In addition the client also supplies the construction project with technical and other equipment envisaged by the plan.

In those cases where funds for construction materials are granted directly to the client, he transfers these to the contractor on the dates set in the contract agreement (contracting organizations of the Ministry of Construction of Heavy Industry Enterprises, the Ministry of Construction of Machine-Building Enterprises and a number of other industrial ministries receive the funds for construction materials directly through their ministries).

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The client is expected to render productive services to the contractor within the limits of his available material resources. In particular, when there are intra-plant railroad lines, the client supplies the contractor with the required railroad shipments; when the client has its own water, steam or power sources, he is required to supply these utilities to the contractor at rates of the planned plant calculation, but not higher than the rates envisaged by the cost estimate. Furthermore, the client supplies the workers of the contracting organization with cultural, living and other facilities (creches, kindergartens, dining rooms, clubs, public baths, laundries, medical stations and so forth).

Funds envisaged under the terms of the third part of the general cost estimate for the purchase of construction machinery, means of transportation, construction tools and property (to the extent that it relates to the contracted work) are transmitted to the contractor. This amount is added to the capital work plan of the contracting main administration and subtracted from the plan of the client main administration. If the stated materials have been purchased directly by the client, they are transferred at no cost to the contractor and added to his fixed capital.

At the same time, the client is required to include in his annual itemized lists residential construction (at the expense of the third part of the general cost estimate and at the expense of residential space being built for the client) sufficient to accommodate the workers and other personnel of the contracting organization. With the permission of the minister, the contractor has the right to use for the construction of permanent residential structures funds of nearby projects allocated to temporary residential construction.

In the course of construction, the client effects technical inspection and control, participates in the drawing up of documents for "skrytyy" concealed /?/ work, accepts completed construction-installation work completed construction items and effects the transactions with the contracting organization. In addition, the client organizes (in the approved manner) the putting into operation of new fixed capital and new productive capacities.

To make it possible for the client to fulfill his responsibilities in construction projects, a special unit is set up -- the director's office of the enterprise under construction. The cost of maintaining this office is envisaged in the second part of the general cost estimate of the project and should not exceed the limits set up for that purpose. The limits set up for the maintenance of the director's office (including technical inspection) differs according to the estimate cost of the construction (usually within the range of 0.38 to 1.09 percent of the estimate cost of construction). In the case of independent residential and cultural-social construction projects, these limits are reduced by 30 percent.

In existing enterprises and in economic organizations, the functions of the client are performed by the management of the enterprise (organization), usually through a special unit -- the capital construc-

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tion department (oks). This department is maintained at the expense of the funds of the basic operations of the enterprise and not the appropriations allocated to construction.

The above list of basic functions of the client shows the key role of the client and his responsibility for the progress of construction in the contracting method.

As far as the contractor is concerned, he organizes the entire construction process and is fully responsible for the fulfillment of the construction-installation work within the time set by the plan and by the contract agreement.

On the basis of the contract agreement, the client charges a single -- general -- contractor with the fulfillment of the entire work program envisaged by the project. The general contractor, who usually handles the basic construction work, is fully responsible for the entire work program (including any special work). The general contractor in turn has the right to subcontract part of the work to other contractors. In that case, the general contractor concludes agreements with the subcontractors in his own name and performs with respect to the subcontractor the same functions that the client performs with respect to the general contractor (including supervision over the plans and estimates dossier, acceptance of completed work and so forth).

Work connected with the installation of equipment may also be passed on to a general contractor -- with his agreement. In those cases where the general contractor refuses to accept installation work, the client has the right to give this part of the work to special installation organizations or to the plant that manufactured the equipment.

The "Regulations on Contract Agreements" make the contracting sides materially responsible for any infractions of the agreement. For example, if the work is not completed within the time set by the agreement, the contractor must pay the client a penalty of 0.05 percent for each overdue day, and in the case of a delay exceeding 30 days a forfeit in addition to the penalty of 2 percent of the contracted cost of the unfulfilled work. Similar sanctions are applied to the client if he commits any of the following infractions: overdue payments to the contractor, holding up working plans and other documents to be passed on to the contractor; failure to meet the dates of transfer to the contractor of funds or of materials and equipment in kind; holding up the transfer of the construction site to the contractor.

In addition, the client is required to pay the contractor a fine of 1,000 rubles daily for failure to accept promptly a completed construction item and is required to cover the contractor's losses arising as a result of the client's failure supply on time residential space for the workers of the contractor.

There are two types of contracts in construction: general contracts and annual contracts.

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A general contract is concluded for the entire construction program envisaged by the approved technical plan and associated cost estimate and sets the dates of the start and end of construction for each major construction item. No general contracts are made for projects that start and end in the same calendar year.

The general contract must be accompanied by the technical plan, which forms the basis of the agreement, with its general cost estimate, explanatory notes and general regulations regarding the organization of construction (with a general construction plan). In addition the general contract must be accompanied by: a list of items to be constructed, with the dates of the start and end of construction; an agreement regarding the nature, the period, the method of utilization and the conditions of payment by the contractor for buildings, services and material and property resources supplied by the client; and special conditions.

Agreements on the manner in which the client will render productive and other services to the contractor, transfer material resources, and account for these services and resources and so forth serve to delimit more precisely the mutual obligations of the two sides that may arise under the specific construction conditions. Under special circumstances, agreements establish the specific interrelationships of the two sides that are not covered by existing regulations on contract agreements (this may occur in connection with work on the territory of an existing enterprise, in case special production conditions prevail in existing workshops and so forth).

An annual contract agreement, concluded within the framework of a general contract agreement, envisages the volume of construction and installation work involved in the itemized list of the construction project (Form 1). The cost of the work envisaged by the annual contract is calculated in terms of the prices of the cost estimate of the technical plan. The annual contract must be accompanied by: an approved itemized list of the work; data on the volume of work to be performed by the contractor during the current year on each item (with unitary rates); a production schedule for the current year; the financing plan with a quarterly breakdown; the schedule of transfer by the client to the contractor of working plans and equipment. In addition, annual contracts must be accompanied by special conditions that must not duplicate the special conditions appended to the general contract, but may contain corrections or additions pertaining to the current year.

The annual contract sets the amount to be advanced by the client to the contractor and the dates on which the advances must be paid and repaid. The limit of the advance is 15 percent of the annual work program. But in concluding the contract the two sides should not automatically agree on the maximum advance. The amount of the advance actually needed by the contractor should be calculated on the basis of the funds required to cover the standardized reserve of basic construction materials and the remainder of the incompleted construction and installation work. The method of calculating the funds required to cover these standardized assets was discussed in Chapter VII.

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The dates on which advances will be paid to the contractor are set by the two sides on the basis of the production schedule and the need for timely delivery of the basic construction materials. As a rule the annual contract calls for payment of the advance during the first quarter in a new construction project or an expanding old project, and in certain cases, within 3 to 10 days after the conclusion of the contract agreement.

The manner in which the contractors extinguish the advances depends on whether construction will be completed during the current year or carried over to the following year.

In the case of construction due to be completed in the current year, extinction of the advance begins as a rule after 50 percent of the contracted work program has been fulfilled. The advances are extinguished by the withholding of the corresponding amounts at the time of the payment of the bills of the contracting organization so that the advances will be completely extinguished when the work is completed.

In the case of construction carried over to the following year, two cases of the extinction of an advance must be distinguished. If the volume of contracted work of the current year is less than or equal to the volume of work carried over, then no part of the advance is withheld during the current year. In the following year, the extinction of the advance is then recalculated on the basis of the new annual contract. In the second case, where the volume of contracted work of the current year is more than the amount carried over, the advance is reduced during the fourth quarter (by the withholding method) down to the amount corresponding to the remainder of the work carried over to the following year.

In addition to general and annual contract, contracts for preliminary work can be concluded in the construction business. Initial preliminary work is permitted only in the case of projects that are included in the capital construction plan and have approved plan specifications and preliminary cost estimate. Such initial preliminary work includes: the purchase of construction machinery and means of transportation, the preparation of construction materials, the clearing of the construction site and other work that can be carried out without plans; this type of work is carried out on the basis of preliminary cost estimates. Initial preliminary work includes moreover installations that cannot be carried out without approved plans and cost estimates for individual items. These include: spur lines, auxiliary enterprises and installations, the power supply of the construction project, storage facilities, residential premises, quarries, and so forth.

In the case of construction that is to be handled by the contracting method, the initial preliminary work is usually entrusted to the future general contractor. In that case the client and the contractor conclude a separate contract agreement for the preliminary work. In content and in the nature of the appended documents, such an agreement is similar to the annual contract agreement.

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2. The Method of Financing Contracted Construction

The investment banks finance construction carried out by the contracting method, provided all the usual financing requisites are met.

The banks are supposed to receive copies of the concluded contract agreements (whether general or annual) and submit them to a careful check.

Special attention must be devoted to the annual contracts since these serve as the basis for the current financing of contracted construction.

The annual contract and its appendices are first of all compared with the annual itemized list of the construction project (Form 1). The bank verifies whether the total volume of work envisaged by the contract agrees with the data in the itemized list (insofar as it applies to contracted construction). This check is repeated for each construction item included in the contract.

If the bank finds discrepancies, it requests that the necessary corrections be made in the contract. Until such corrections are made, the bank finances the contracted construction on the basis of data in the annual itemized list of construction items.

Using available data (including the certificate on Form 6 regarding the existence of a plans and estimates dossier and the statement of verification of the dossier), the bank checks whether the construction items listed in the annual contract are all supplied with a technical plan. The bank will not finance any construction items that have no approved plans and cost estimates and so informs the client and the contractor.

The bank also checks on the legitimacy of the agreements and special conditions appended to the general and the annual contracts, especially whether such agreements and conditions contravene the "Regulations on Contract Agreements in Construction" and whether the principles of economic accountability are being observed. The bank also sees to it that the agreements and special conditions call for the payment by the contractor for materials and truck and cart transportation furnished by the client at the established state prices and payments for other productive services (water, steam, power supply, spur lines and intra-factory rail lines and so forth) at the prices of planned plant calculations, but not exceeding the cost estimate prices. The agreements and special conditions must set the rent payments of the contractor for temporary buildings and installations that have been erected under the terms of the third part of the general cost estimate and for residential space provided by the client. The rent is based on the existing amortization rates.

If the bank finds either in the contracts themselves or in the appended documents any infractions of existing law, regulations and instructions, the bank so notifies the two contracting sides and sets a time limit (usually not more than 15 days) for the proper corrections

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to be made.

The banks verify the amount of the advance agreed to in the contract. Aside from not allowing an advance in excess of the legal limit (15 percent of the annual contracted work program), the bank checks whether the advance corresponds to the actual requirements of the contractor in normal reserves of basic construction materials and the standardized remainders of incompleted construction and installation work. For this purpose, the bank actually makes the calculation of the working capital required to cover the standardized remainders of the two stated assets.

If this calculation shows the advance to be less than that set in the contract, the bank requests the client and the contractor to reduce the contracted advance accordingly. However, the bank does not have the right to reduce the amount independently of the two contracting sides. If necessary, the bank passes its own calculations on to its superior office for settlement of the question directly between the head office and the ministries of the client and the contractor. Until the question of the advance is finally settled, the bank is guided by the conditions set by the contract agreement. In this connection, the advance is paid to the contractor out of the financing account of the client independently of the plan for the mobilization or immobilization of internal resources envisaged by the financing limit of the project (Form 5).

In addition to the contracted advance, the client pays the contractor the estimated cost of prefabricated construction parts delivered to or manufactured on the construction site to the extent of three months' requirements. This procedure stimulated the development of industrialized methods in construction, insures the production of prefabricated parts and subassemblies by factory methods and their subsequent utilization (installation) in the course of the construction work. The client may pay the cost of prefabricated parts that have been shipped by the manufacturer but have not yet arrived at the construction site; in that case the contractor presents the supplier's invoice directly to the bank.

The cost of the prefabricated parts is withheld at the time of the payment of the monthly bill for completed construction and installation work that includes the installation of the prefabricated parts paid for by the client. The banks verify the correctness of the withholdings on the basis of the balances of the contracting organizations.

Transactions for construction and installation work completed in accordance with the terms of the contract are handled on the basis of the contractor's monthly bills accepted by the client. These monthly bills must be accompanied by work acceptance documents (Form 2) drawn up separately for each construction item. These documents are signed by the representatives of both the contractor and the client. A single bill may be accompanied by several work acceptance documents provided they apply to the same contract.

The acceptance document includes (for each individual construction

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element) a list of the work performed by the contractor during the preceding month and accepted by the client. The cost of the completed construction work is based on the unitary rates of the cost estimate. Completed work may be included in the acceptance document only upon the completion for each construction element of all operations listed in the appropriate paragraph of the norm handbook, on the basis of which the given unitary rate had been calculated.

For example, Paragraph 46 of the SUSN/a norm handbook/ requires that the assembling of a truss consist of the following series of operations: preparation of the wallplates and beams with an "ostrozhka"; installation of the wallplates with tarpaper insulation; assembly and installation of the beams; installation of the necessary fastenings (braces, bolts); vertical and horizontal transportation of materials within the working area. Consequently, the installation of a truss cannot be paid for until after the entire list of operations has been completed.

If we assume that the truss has been installed, but without the necessary fastenings, then the work is regarded as incompleted and cannot be included in the acceptance document (Form 2).

However, it should not be concluded from the foregoing that for inclusion in the acceptance document all operations must be completed on the construction element of a construction item (in our case, the installation of all truss beams). Payment for completed construction work is made for a complete cycle of operations within a completed part of a construction element (for example, for a cubic meter of brickwork, a square meter of plaster work, a cubic meter of installed timbers in the construction of a truss, and so forth).

Thus, the basic principle of payments for contracted construction work is payment by the client for the cost of parts of construction elements completed in accordance with the working plans and values at the unitary rates of the approved cost estimate. As an exception separate payment may be made for certain construction elements (reinforced concrete, wooden inter-floor and roof structures, and a number of other operations).

Accounts for fulfilled installation work are handled after the completion of the installation of the unit or its parts on the basis of existing price books for installation work. In the case of equipment for which the cost of installation is not listed in the price books and has been determined on the basis of individual cost estimates or preliminary cost estimates, payment for completed installation work may be effected on the basis of the percentage of completion, as established by the acceptance document (Form 2).

In addition to the monthly statements based on the documents of acceptance of completed work (Form 2), the contracting organizations also present to their clients intermediate 10-day bills. These 10-day bills need not be justified by work acceptance documents, and if accepted by the client these bills are paid by the bank. The amounts paid to the contractors on their 10-day bills are then withheld at the time of the payment of the monthly statements.

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A simplified payment method exists for construction items that are to be completed within three months. In those cases, the work is paid for by the client only upon the completion of the entire item. Up to 90 percent of the cost of the item may be paid on intermediate bills accepted by the client. If construction on such an item is not completed within the three months, the work completed is certified by an acceptance document (Form 2) and further accounts between the contractor and the client are handled in the usual manner.

Accounts for work completed by the subcontractors are handled similarly. As a rule, representatives of the general contractor, the subcontractor and the client participate in the formulation of the monthly work acceptance documents relating to work completed by the contractor. This way repeated acceptance of work done by the subcontractor can be avoided. Subcontractor statements after having been accepted by the general contractor are paid directly from the financing account of the client, with the funds transferred directly to the clearing account of the subcontractor, by-passing that of the general contractor.

3. Bank Control over the Specific Utilization and Guarantee of Advances

The investment banks are charged with control over the payment of clients' advances to the contractors for the amount of the materials actually purchased. In this connection, the banks check systematically on the specific utilization of the advances and see to it that these advances are converted into paid materials.

As a means of checking of the specific utilization of advances, the banks open for each contractor, in addition to his clearing account, a special account on advances. Upon the client's instructions, the bank transfers the contracted advance from the financing account of the client to the special account of the contractor. Subcontractors are also given such a special account, but in that case the contracted advance is transferred from the special account of the general contractor to the special account of the subcontractor.

The titleholder of such a special account may dispose of its funds only in a strictly regulated manner. Funds of the special advance account are used to pay supplier bills for basic construction materials, including the cost of transportation, and form the basis of letters of credit and special accounts for the payment of basic construction materials. Auxiliary materials are paid for from the special account only in the exceptional case where they are billed together with the basic materials. The advance account is further used for the transfer of funds for the following purposes: for the payment of advances to subcontractors; for repaying previously received advances by transfer to the financing account of the client (similar repayments are effected by subcontractors to the special accounts of general contractors); to cover overdue bank loan payments; to restore funds to the clearing account of the contractor as a result of the check on the guarantee of the advances.

The basic materials paid for from the special account are used by the contractor in the course of the construction work. After the com-

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pleted work has been accepted and paid for by the client, funds representing the cost of the used materials are transferred as part of the total paid amount to the clearing account of the contractor and are not returned to the special account. Consequently, in order to guarantee the advances in terms of materials, the contractor is required to replenish his reserves of materials at the expense of his clearing account. Therefore preliminary bank control over the specific utilization of advances is supplemented by a system of subsequent control, in which certificates (Form 4-a) regarding the guarantee of advances and short-term loans are submitted to a check. These certificates must be submitted by the contractor to the bank not later than the 5th of every month (giving data as the 1st of the month); contracting organizations with a wideflung network may submit these certificates by the 10th of the month. The certificates must be signed by the chief and the head accountant of the construction organization.

Contracting trusts that carry out construction in a single city may submit to the bank one certificate (for the trust as a whole), listing data on the remainders of materials in the main storage premises of the trust. In those cases, the bank may upon the request of the trust open a single special advance account (in the name of the trust administration). The single special account is then credited with all advances received by the construction organizations of the trust and is used to pay for all basic materials intended for the construction organizations and other economic units of the trust. A similar procedure exists with respect to trusts that are operating through the mutual clearing bureau system. In those cases, the single special account is opened in the name of the special supply office of the trust and the bank receives a general certificate (Form 4-a) for the entire trust.

If this certificate is not submitted by the due date, the bank withholds payments from the special account for bills, letters of credit and special accounts covering the purchase of construction materials. These outlays can then be met only from the contractor's own clearing account.

Let us now give an example of such a certificate (Form 4-a) insofar as it affects the check of the guarantee of the clients' advances.

/See Form No 4-a next page/

The certificate on the guarantee of advances and short-term loans is made up along balance lines. Section A lists the working assets that have been formed through the expenditure of the advances obtained from the clients and serve as a guarantee of these advances.

Item 1 "Remainder of construction materials" includes the cost of all basic materials in storage or en route, whether paid for from any source (clients' advances, bank loans and so forth) or not paid for.

Item 2 includes the incompleted construction and installation work, except incompleted construction of residential houses and inter-

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Form No. 4-a

To the Tula Office of Prombank

(name of bank, office, branch or agency)

CERTIFICATE

ON THE GUARANTEE OF ADVANCES AND SHORT-TERM LOANS

as of 1 November 1950

by the trust Tulpromstroy
(name of contracting organization)

(in thousands of rubles)

Section A	Amount	Section B	Amount
1. Remainder of Construction Materials	4,220	1. Amount of clients' advances according to the norm	3,200
including:		2. Actual remainder of advances received from the clients	4,120
(a) seasonal delivery of materials	540	3. Payments due on bank loans:	
(b)		(a) for the seasonal accumulation of construction materials in connection with extra seasonal work	210
2. Incompleted construction and installation work	420	(b) for the seasonal accumulation of construction materials in connection with seasonal delivery conditions	405
3. Remainder of advances granted to subcontractors	320	(c)	
4. Remaining funds in the special advance account	--	4. Actual indebtedness to suppliers for construction materials in the following categories:	
5. Remainder of letters of credit and special accounts advanced for the payment of construction materials	168	(a) Accepted invoices	264
		(b) Overdue invoices	293
		(c) Unbilled deliveries	49
6. Total (1/2/3/4/5)	5,128	5. Total (2/3a/3b/3c/4a/4b/4c)	5,341

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mediate bills paid by the client for items to be completed in less than three months.

The items in Section A are totaled in Item 6, which does not include Item 1-a since that item is already included in Item 1.

Section B (the liabilities side of the certificate) includes in addition to the actual remainder of clients' advances the payments due on bank loans for the seasonal accumulation of materials and the actual indebtedness to suppliers for construction materials received. These items must be included since Section A includes the cost of all basic materials, those paid for as well as those not paid for from the clients' advances. Actually, only basic materials that have been paid for can serve as a real guarantee of the clients' advances (together with the other working assets listed in Section A).

Items listed in Section B are totaled in Item 5; this does not include Item 1 (the norm of the clients' advances), which is used only for checking the guarantee of bank loans.

Within two days of the receipt of the certificate (Form 4-a), the bank verifies the guarantee of the advances by comparing the total of Section A with the total of Section B. If the working assets (Item 6 of Section A) exceed the liabilities (Item 5 of Section B), it means that the advances are fully guaranteed by paid material resources. In that case the bank has the right upon the contractor's request to transfer from the special advance account (to the extent that funds are present therein) to the contractor's clearing account the amount corresponding to the excess of the guarantee. The purpose of such a transfer is to replace outlays effected at the expense of the contractor's working capital.

If the remainder of the advances obtained from the clients plus the indebtedness on bank loan payments and on supplier accounts (Item 5 of Section B) exceeds the working assets (Item 6 of Section A), it shows the lack of guarantee of the advances obtained by the contractor. In that case, the bank requests from the contractor the transfer from his clearing account to his special advance account of that part of the clients' advances which has been illegally used as working capital and is not backed up with existing material resources. If that request has not been met within three days, the bank has the right to effect the transfer of funds (subject to the established priority of payments).

In our example, we have a case of lack of guarantee of the clients' advances:

Total of Section B (Item 5)	5,341,000 rubles
Total of Section A (Item 6)	5,128,000 rubles
	213,000 rubles

Thus, the client's advances are not guaranteed to the extent of 213,000 rubles; that sum must therefore be transferred from the clearing account to the special advance account of the contractor.

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Contractors that fail systematically to guarantee clients' advances may be required by the banks to submit certificates (Form 4-a) on a 10-day basis. In those cases, the bank moreover has the right to effect payments for construction materials from the contractor's clearing account rather than from the special advance account.

Although the certificate (Form 4-a) is a bookkeeping document, it is nevertheless preliminary in character since it is drawn up prior to the monthly balance. The banks must therefore verify the data in the certificate against the information in the contractor's monthly balance sheet.

4. Bank Control over Correct Payment for Construction-Installation Work

One of the chief functions of the investment banks is control over the correct expenditure of state funds in transactions involving completed construction-installation work. That is quite understandable since excess payments produce a rise in construction costs, reduce the amount of appropriations allocated by the state to expanding Socialist reproduction of fixed capital in the national economy, and disturb the principle of economic accountability in client-contractor relationships.

The great importance of bank control over the correct accounting of completed construction-installation work has been stressed by a number of government decisions. The investment banks are charged with responsibility for insuring constant, rigid control over correct payments for completed work to prevent the possibility of any overpayment. Therefore a preliminary bank check of bills presented for completed construction-installation work is especially important in construction performed by the contracting method.

Irrespective of the acceptance of the bill on the part of the client, the bank checks whether the documents presented by the contractor have been properly drawn up and effects payment only after a detailed check of the legitimacy of the payment. The check covers especially the qu estion of whether the financing of the construction items covered in the bill is legitimate. In making the check, the bank must determine: whether financing for the given project has been approved and whether the items under construction are listed in the contract agreement that the bank has accepted for financing and, whether there is a free remainder of the cost estimate limit for the given project as a whole and for the individual items. Subject to this check are both the monthly bills, which are based on the work acceptance documents, and the 10-day bills, which need not be accompanied by such work acceptance documents.

In the case of the monthly bills, the banks check the acceptance documents (Form 2) drawn up separately for each construction item.

/See Form No 2, next page/

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Form No 2

Client -- Plant

Contractor -- Tulpromstroy trust

Contract No 49 of 18 January 1950

Act No 472

of Acceptance of Completed Work

for October 1950

Presented monthly to the financing bank branch with the statements of completed work

Construction item -- Forge Shop

Total estimated cost of item -- 12,428,300 rubles

Cost of work performed since the start of construction in estimated prices (excluding the work reported in the present document) -- 5,349,800 rubles

Order No	Type of Work	Number of Unitary Rates	Unit	Work completed from 1 to 31 October 1950: Quantity	Price per unit (in rubles)	Cost of work as estimated (in rubles)
1	Columns, reinforced concrete, rectangular, up to 1.8 meters in perimeter -- preparation and laying of the concrete (calculated at 50 percent of the unitary rate)	381	cubic meter	348	196.21	68,281.00
2	Ceiling, reinforced concrete, ribbed, above the ground, more than 30 square meters in area -- preparation and installation of casing and reinforcement (calculated at 45 percent of the unitary rate)	367	cubic meter	1,216	231.45 102.11	281,443.00* 124,166.00
3.	Laying of smooth brick walls of red brick on a lime mortar	291	cubic meter	484	201.97	97,753.00
4.	Coverings of blind embrasures covering an area of more than 5 square meters (with two coverings and one frame)	188	square meter	212	137.02	29,048.00
5	Preparation and installation of steel girders weighing up to 4 tons	456	ton	28	1,869.70	52,352.00
					Total	528,877.00
						124,166.00

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/Form No 2 -- continued/

Overhead Expenses

for construction work 17.2 percent of 476,525 rubles		81,962.00
for steelwork installation 9.4 percent of 52,352 rubles		4,921.00
	Grand Total	615,760.00
		124,166.00

Submitted (signature) Accepted (signature)

(*The numerator lists the full cost of the work and the denominator the cost of materials recovered)

As will be seen from the form of the act reproduced above, the upper right corner contains data on the total estimated cost of the construction item and the cost of the work performed since the start of construction (excluding the work certified in the present act). The acceptance act presented with the bill may be paid for only within the amount of the unused remainder of the estimated cost of the construction item (including the cost of the equipment installed and other outlays incurred in accordance with the cost estimate of the technical plan of the given item).

Then the bank ascertains whether all the work listed in the act is actually of the construction and installation type. Contracted work that is not properly construction or installation may not be paid against acceptance acts. The type of work to be excluded from the act includes the repair, manufacture, purchase and delivery of equipment; the purchase of tools, trucks and construction machinery and so forth; outlays related to the acquisition of land, the resettlement of persons living on the construction site, and so forth (this type of work and outlays are paid for against separate bills).

Special attention must be devoted to the proper description of the types of work listed in the act. For each construction element and each type of work, the bank must verify the completeness of the description and its correspondence with the data of the unitary rates of the approved cost estimate. Let us illustrate this point with a specific example.

Let us assume that one of the work descriptions in an acceptance act presented for payment is as follows: "Earthwork with a straight-blade excavator and associated truck transportation". Such a work description is incomplete, since the appropriate paragraph of SUSN /cost estimate norm handbook/ (Paragraph 1-D) lists a whole series of norms for this type of earthwork. These norms vary in accordance with the capacity of the excavator shovel (0.75 - 0.57 - 0.35 cubic meters), the type of soil (sandy or clayey), and the distance over which the

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earth is moved (up to 0.7 - 1 - 2 - 3 - 4 - 5 kilometers). This type of work is covered by 36 different unitary rates, with the cost of excavating and moving 1 cubic meter of earth at the maximum rate being almost three times the cost of the work calculated at the minimum rate.

Therefore the work item thus described in the acceptance act cannot be paid for by the bank until the character of the work has been described in a more precise manner.

For the same reason, the bank may not effect payment for reinforced concrete or rock-filled concrete work as long as, in accordance with Paragraph 25 of SUSN, the act does not list the volume of the individual concrete units (less than 25, from 25 to 100, more than 100 cubic meters). Similar conditions prevail with regard to inter-floor coverings (Paragraph 39 of SUSN) if the act does not list exhaustively the characteristics of the covering, its span in meters and so forth.

The bank is not required to pay for work items in the acceptance act for which no unitary rates are listed in the unitary rate folder of the approved cost estimate. Such work items may be paid after the authorities that approved the original cost estimate approve the additional unitary rates involved.

In addition, the bank checks the rates per unit of work as listed in the acceptance act against the unitary rates of the approved cost estimate as given in the unitary rate folder or in the work list appended to the contract agreement.

The check of the correct application of unitary rates is more complex and requires familiarity with cost estimate handbooks. This check is designed to eliminate duplicate payments for the same work: once as part of total series of operations listed by the appropriate paragraph of the cost estimate norm handbook and the second time on the basis of a separate fractional unitary rate.

Let us assume that the acceptance act (Form 2) lists the following work items:

1. Digging of foundation pits, up to 3.5 meters in depth, with a cross section of 3 square meters, in dry heavy soil.

2. Timbering of the walls of foundation pits, up to 3.75 meters in depth, in dry heavy soil.

3. Filling of pit after the laying of the foundation, including ramming and watering.

In the given case, payment is made only for the work item relating to the digging of the foundation pit, while the two other work items must be excluded from the act. This is because the work of digging a foundation pit includes (according to the norms in Paragraph 3 of SUSN) the timbering of the walls and the refilling after the laying of the foundation.

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The norms of the cost estimate norm handbooks and the installation rate books also exclude outlays for the horizontal and vertical transportation of materials, prefabricated parts and equipment within the working or installation zone, i.e. from the storage site to the working site.

Naturally the banks do not allow payment against acts on Form 2 of outlays that are expressed in the calculations of the cost of materials or in the cost of machine-shifts and are therefore already included in the corresponding unitary rates. Such outlays include expenditures for the delivery of materials and prefabricated parts to the storage site, outlays for the delivery assembly and dismantling of construction machinery and so forth.

The bank in checking the acceptance acts must bear in mind that existing regulations permit the separate payment of certain construction processes required in some construction elements. In reinforced concrete work, for example, separate payment may be made for the installation of timber casing, the preparation and installation of the reinforcement, preparation and laying of the concrete, removal of the timbering and finishing of the concrete surfaces.

In connection with temporary installations listed in the acceptance act, the bank employes must check whether these installations have been envisaged by the approved general cost estimate and the annual itemized list of construction items and whether they are not by nature so-called nonitemized temporary installations. Such temporary installations may by existing regulations not be included in the itemized lists (whence the name "nonitemized") because they are included in the established limit of overhead expenses.

The bank checks furthermore on the legitimate inclusion in the act (Form 2) of the cost of timbers used in a number of operations (such as reinforced concrete work), which are already included in the work description envisaged by the cost estimate norms and cannot be paid for separately. Additional payment for timbering is permitted only in certain construction elements and types of work that are so identified in the corresponding paragraphs of the cost estimate handbooks.

A major element of the control work of the bank in transactions with contractors is a check over the correct calculation of work cost increases related to winter conditions. The cost of the winter work factor generally stated directly in the acceptance act (Form 2). The amount of the cost increment is given by special handbooks covering the norms of construction and installation work performed in winter conditions.

The winter cost factors vary with the location of the construction site (the USSR being divided into six temperature zones) and the nature of the performed work. For example, the winter cost factor in earthwork is determined by the depth to which the ground freezes and the outer air temperature; in stone, reinforced concrete and other types of construction work, the winter cost factor is based on the location

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of the project and conditions under which the work is performed, in the open air or within roughly completed buildings.

The winter norms include all additional outlays related to winter conditions. Therefore no additional winter cost coefficients may be added to the winter norms listed in current handbooks. In particular, no separate payment may be made for the clearing of snow from the construction site and associated passages and roads, the heating of temporary nonitemized installations and so forth.

Special care must be exercised in checking the legitimacy and correct application of coefficients allowed by current legislation and norm handbooks. The check must cover, in particular, the existence of acts justifying the legitimate application of wage coefficients when construction and installation work is performed together, when construction work is performed in existing or unsafe workshops, under cramped conditions and so forth.

Also subject to a careful check is the legitimacy of the payment of extra charges for small amounts of work. Such surcharges are permitted by the norm handbooks in cases where the total volume of work for the project as a whole (i.e. where the estimated cost of construction, sewage and special types of work on all construction items) is less than the following minimums: in industrial construction, excluding the cost of steel construction elements, 2.5 million rubles, and in civil construction one million rubles. Surcharges may be levied on small amounts of installation work when the total cost of installation work on the project is less than 300,000 rubles (excluding the cost of equipment).

The bank check of acceptance acts further covers the correct calculation of the recovered cost of materials. Materials are recovered in a number of construction operations, for example, the recovery of timber casings in concrete and reinforced concrete work, the dismantling of trench supports, and so forth. The total amount of the unitary rate is shown in the form of a fraction, with the numerator including the complete cost per unit of work and the denominator the cost of the recovered materials. In checking the acceptance acts, the banks must verify whether the cost of the recovered materials has been properly calculated in accordance with the unitary rate data on which the cost of the performed work has been based.

In the case of restoration operations, the acceptance acts must be checked especially for the proper calculation of the cost of wrecking work (the dismantling of construction parts that cannot be restored, the clearing of ruins, the removal of rubble, and so forth). According to existing regulations, this type of work is paid for in the following way: superficial work is included in the acceptance acts (Form 2) and is paid for on the same basis as other construction work in accordance with the rates of the approved cost estimate; underground and underwater wrecking work is paid for in terms of the actual cost on the basis of special acts listing the volume of performed work and its actual cost based on accounting data.

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Of major importance is a check of the correct calculation of overhead expenses in the acceptance acts (Form 2). The government approves separate overhead norms for construction work, the installation of steel construction, the installation of equipment, underground capital mining work and marsh-preparation work in peat workings. Construction overhead norms are further differentiated by ministries and agencies. In the course of checking the acceptance acts (Form 2), special attention must be paid to the grouping of the performed types of work and the proper application of the overhead norms. Except for cases for which provision is made in special government regulations, construction work overhead expenses are based on the norms that have been set up for the client ministries, irrespective of the jurisdiction of the contractors that perform the work. Overhead outlays related to the installation of equipment and steel construction that are based on norms listed in installation rate books are already included in the cost per unit of installation work and should not figure in the acceptance acts. This must be carefully verified in the course of the bank check.

Finally, the acceptance acts are verified with regard to their arithmetical computations, after which the bill accompanying the acts is verified. In the cases where several acceptance acts are covered by a single bill, a separate register of the corresponding act numbers and total amounts must be appended to the bill.

The bill presented by the contractor includes the total cost of the work covered by the acceptance acts, various surcharges permitted by law and various types of withholdings. Monthly contractor bills must provide for the withholding of the amounts paid on the intermediate 10-day bills and part of the client's advance (if the withholding date set by the contract is due), as well as the cost of the prefabricated parts and subassemblies that have been used in construction and were paid for by the client in addition to the advance.

The bills are checked by the banks not only from the point of view of the correct listing of the data mentioned above but also from the point of view of the arithmetical computations. Having checked the bills and the appended acceptance acts (Form 2), the bank employes note the amount to be paid on the documents. With the approval of the head of the bank office or specially delegated bank employes, the bank's accounting department effects the payment of the bills in the amount indicated by the checker.

A penalty of 5 percent of the overstated amount can be levied by the banks on the contractors (a list of the overstated items on which penalties can be levied has been drawn up by the Ministry of Finance USSR).

Bank control over payment of performed construction-installation work is not limited to the preliminary check of bills and appended acceptance acts (Form 2). Not even the most careful check of the acts can ascertain whether the work has actually been performed. Therefore bank employes periodically carry out an inspection on the spot of the completed work.

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This inspection is a very effective method of preventing overpayment of state funds for completed construction and installation work.

By the terms of existing regulations of the Ministry of Finance USSR, on-the-spot inspection by the bank must cover not less than 35 percent of the construction-installation work paid for on the basis of acceptance acts in the course of a year.

This inspection is designed to establish whether the work paid for by the bank has been carried out in strict accordance with the working plans and the plans and estimates dossier; whether the certified and paid amount of work corresponds to that actually performed and whether the composition and nature of the work has not been altered compared with the unitary rates of the approved cost estimate; whether all the construction parts and types of work paid for have actually been completed and whether any incompleted construction or installation work has been paid for.

Before leaving for the construction site to carry out an inspection, the bank employe usually draws up a summary of the work that has been paid for. This list summarizes on the basis of the acceptance acts (Form 2) the quantity and cost of the work to be inspected, particularly the largest and most costly items.

Furthermore this summary lists for each construction item the quantity and cost of work on each separate construction element or type of work. Separate columns are provided in the list for each month of the current year; in addition there are two special columns that give the quantity and cost of work paid for prior to the start of the year.

These summary data exclude work that has been previously inspected and include only the work that is to be checked on the present inspection trip. The summary lists separately the indicators of the work that was paid for prior to the start of the year.

We can illustrate the above with an example.

Let us assume that the following situation is found to be the case at the time such a summary list is being drawn up. On the basis of acceptance acts (Form 2) paid by the bank on a construction item to be inspected, the following work has been done in laying brick walls of a complex architectural form using lime mortar at the rate (unitary rate of the approved cost estimate) of 201.60 rubles per cubic meter of brick work:

Prior to the start of the year	2,045 cubic meters at the cost of	412,272 rubles
In January	520 " "	104,832
In February	545 " "	109,872

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In March	280 cubic meters at the cost of		56,448 rubles
Total	3,390	" "	683,424
The last inspection covered (in November of last year)	1,620	" "	326,592
Consequently, the present inspection must cover	1,770 cubic meters at the cost of		356,832 rubles
Including the following work paid for prior to the start of the year (less the work inspected the last time)	425	" "	85,680 rubles

The example given above is taken directly from the established form of the summary list discussed previously; such a calculation is made for every construction element or type of work that is to be inspected. The preliminary summary list thus contains all the data regarding quantity and cost of work required for the inspection.

Representatives of the client and the contractor are invited to be present in the inspection and must be given at least one day's notice of the time and place of the impending inspection. Failure of these representatives to appear does not interfere with the carrying out of the inspection.

The inspection involves an examination on the spot and measurement of the construction-installation work paid for on the basis of the acceptance acts. The quantity and the physical volume of the work actually performed is measured on the spot. The volume and make-up of work on certain construction elements that cannot be easily measured on the spot are verified on the basis of available primary construction documents. These documents include: work progress registration journals, reporting on pile driving, concrete laying, drilling and so forth; geodesical and mine survey data; various types of acts covering "concealed" work; primary documents on material stores, instructions to workers, routings of truck and cart drivers, and so forth.

The results of the inspection are certified in a form provided by the Ministry of Finance USSR. A list with the recalculation of the cost of the work must be appended to this report. This list compares the quantity, rates and cost of the work as given in the paid acceptance acts with the data found in the course of the inspection.

The total amount of excess charges uncovered in the course of the inspection is broken down in the recalculation by types of infractions. The most serious infraction is an increase in the quantity (physical volume) of completed work, which is tantamount to charging for incompleted work.

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In the example above, 1,770 cubic meters of brickwork had been paid for after the last inspection. Actually inspection established the completion of only 1,620 cubic meters. The excess amounted to 150 cubic meters, or 30,240 rubles worth of work at the rate of 201.60 rubles per unit (cubic meter) of brickwork.

The next most serious infraction is the outright inclusion in the acceptance acts of incompleted production, since payment for incomplete series of operations described in the cost estimate norms is illegal.

For example, according to the acceptance acts 420 square meters of corrugated iron roofing were said to have been laid, but upon inspection the roofing is found to lack gutters, smokestacks and skylights required by the terms of Paragraph 69 of SUSN [cost estimate norm handbook]. Therefore the laying of the 420 square meters of roofing must be regarded as incompleted construction and the amounts paid for this work must be regarded as overpayments.

The recalculation list also identifies separately excess payments due to the incorrect application of unitary rates.

For example, according to the acceptance acts, the digging of trenches to a depth of 2 meters and a width of 1.5 meters in heavy wet ground with a total volume of 452 cubic meters was paid for at the rate of 17.50 rubles per cubic meters, or at a cost of 7,910 rubles. Actually inspection uncovered the fact that the trenches had been dug in heavy dry ground, for which the corresponding unitary rate is 5.10 rubles per cubic meter. The excess charge due to the wrong application of the unitary rate is therefore

(17.50 rubles x 452) - (5.10 rubles x 452) = 5,605 rubles.

Other types of excess charges include: the illegitimate inclusion in the acceptance acts (Form 2) of temporary installations that are already covered by overhead expenses; the listing in the acceptance acts of work that was not envisaged by the plans and estimates dossier of the given construction item, and so forth.

After all the inspection data have been listed in the recalculation report, the total amount paid on the acceptance acts and the amount due according to the inspection are noted. The difference is the total extra charge that is broken down in the report by types of concealed infractions. Then the overhead expenses are calculated for each of the two total amounts, after which the total extra charge is corrected for coefficients converting the cost of construction into current prices.

The volume of inspected work and the total amount of excess payments made during the current year are then listed in the text part of the inspection report. These data are required for the appropriate reduction of appropriations allocated to the inspected project for the current year.

If the representatives of the client and the contractor do not

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agree with any of the facts in the inspection report they may make appropriate notations in the report and present their own views to the bank within five days.

The inspection act is regarded to have legal force after its approval (within 10 days) by the chief of the bank branch. The approval, entered on the title page, must contain the final data on the total amount that has been overpaid and is to be withheld, with separate listing of the amount relating to the work paid for prior to the current year. The approval must also cover the amount of the penalty, which, as in the case of acceptance acts and bills, is set at 5 percent of the total excess charges uncovered through inspection.

The amount of the excess charges uncovered through inspection and the amount of the penalty are transferred from the contractor's clearing account under the usual terms of payment priority; if there are no funds in the clearing account, the amounts are withheld at the time of the next payment for completed work.

The penalty levied by the bank must be recovered from the workers of the contracting organization who are personally responsible for the infractions.

The bank must see to it that the necessary corrections resulting from the inspection be made in the reported indicators of the contracting organizations and the projects.

Major importance must be attached to the question of raising the quality and effectiveness of inspection since the struggle against overpayment of state funds and the strengthening of financial discipline in construction are the main functions of the investment banks. One of the best methods of checking on the quality of inspection is to carry out a second inspection as verification. The second inspection is usually handled by chief engineers of the bank branches on the construction items that have recently been inspected by the bank employes.

5. Bank Control over the Financial and Economic Operations of Contractors

The financial control function of the banks must insure observance at the projects of the strictest system of economies, the thrifty handling of state funds, the rational and correct expenditure of material and money resources and the fulfillment of the most important of all national economic tasks -- the reduction of the cost of construction-installation work and of construction in general.

In the case of contracted construction, the reduction of construction costs depends chiefly on the management of the contracting organizations. The reduction of costs envisaged by the plan can be achieved only when the contracted work is properly organized, advanced technology and Stakhanovite labor methods are introduced, economic accountability and a system of economies are being observed and mismanagement and nonproductive losses are eliminated. The investment banks that are concerned with the clearing operations and the short-

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term crediting of contracting organizations must therefore effect day-to-day control over their financial and economic operations.

Bank control must be designed to prevent in time any possibility of infractions in the plans and estimates, financial and payments discipline of contracting construction organizations and to assist in their fulfillment of the cost reduction plans. To achieve this task, investment banks must study on a systematic basis the operations of contracting organizations, combine preliminary and subsequent control methods, and carry out specific measures and requirements to eliminate the uncovered deficiencies.

In connection with their control functions, the investment banks have the right, without interfering in the economic operations of projects and contracting organizations, to carry out investigations, demand the presentation of all required documents, and examine construction audits.

Following analysis of accounts and an on-the-spot investigation, the bank branches work out specific measures designed to eliminate the shortcomings and insure fulfillment of the plan.

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CHAPTER IX

SHORT-TERM CREDITING OF CONTRACTING ORGANIZATIONS AND PROJECTS

1. Basic Short-Term Credit Items

The existing system of short-term crediting in the field of capital construction is based on the general principles of Soviet crediting, including due dates, repayments, specific purpose of loans, and guarantee by equivalent material resources.

Short-term crediting of construction organizations by investment banks was established by the Council of People's Commissars USSR and the party's Central Committee in a decree dated 11 February 1936. That key document in the field of capital construction gave rise to the short-term crediting of contractors for the seasonal deliveries of construction materials and fodder and was instrumental in creating a real basis for the development of credit relationships between the investment banks and the contractors, while exercising "control by the ruble" over the operations of economic organizations in the field of capital construction.

Subsequently short-term credit operations in the field of construction were regulated in detail by the Regulations of Construction Financing approved by the government in 1938. The basic provisions of these regulations were also extended to the other investment banks by decision of the People's Commissariat of Finance USSR.

According to these regulations, short-term credit can be granted to contractors for the purchase of construction materials, fodder and fuel for seasonal upswings in work and because of seasonal shipping conditions (in 1949, the crediting of seasonal purchases was broken down into its two component parts). One additional form of short-term credit permitted by the regulations a loan for less than 6 months for capital repair of construction machinery and means of transportation at the expense of impending amortization fees.

Short-term credit items permitted by subsequent government decisions include: (1) loans granted against clearing documents en route in connection with the sale and shipment of goods and excess reserves no longer needed by the contractor and loans against clearing documents en route in connection with the shipment of goods to the supply organizations of the contracting trust; (2) loans for the payment of supplier bills for basic materials (lumber, metal, cement, roofing) shipped to contracting organizations of those ministries that may use guaranteed bank credit by permission of the Council of Ministers USSR; (3) loans granted by municipal banks to the supply organizations of construction-installation trusts to cover planned remainders of materials in excess of norm.

In addition to these loans, the investment banks may be separate government decisions grant credit to contractors for temporary needs: for the payment of overdue debts to suppliers in general inter-ministry settlements; for the settling of overdue wages; as temporary financial

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assistance to the construction organizations of certain ministries, and so forth.

In cases set out by law, investment banks may also grant short-term credit to client projects. But this type of credit differs in principle from the loans granted to contractors for temporary additional working capital needs envisaged by the plan. The credit granted to client projects is essentially a form of advance granted by the investment banks until the client obtains funds from sources determined by the financing plan.

Short-term credit is granted to the client projects for the following purposes: for the payment of overdue debts to contracting organizations of certain ministries (on the basis of separate government decisions); to prepare state farms for the next year's operations and in part for outlays related to the replenishing of the main herds.

A special type of short-term credit are loans granted by the investment banks for the payment of bills presented by foreign trade units of the Ministry of Foreign Trade USSR for imported materials and equipment.

2. The Method of Planning, Granting and Extinguishing Short-Term Loans

The total short-term credit needs of contracting organizations and the sources to be used for such credits are listed in the investment bank credit plans approved by the government. Since the content and the procedure of drawing up and approving these credit plans are discussed in Chapter XIX, the present chapter will be restricted to a discussion of the procedure of setting up the short-term loan limits.

The credit limit is the maximum limit of indebtedness for a given type of loan that has been properly approved and was derived from the planned temporary need of the credit organization in additional working capital.

The amount of the short-term credit limit is based on quarterly requests presented by ministries and agencies to the investment banks.

The calculation of planned credit needs varies in accordance with the specific purpose of the loan. For example, in the case of credit for the purchase of construction materials, the required limit is calculated for the ministry as a whole; that also applies to credit needs for capital repairs of construction machinery and transport. As far as the seasonal shipment of construction materials, fodder and fuel is concerned, the limit for that type of credit is calculated separately for each contracting organization.

Once the credit limits have been approved by the Council of Ministers USSR, they are distributed among the construction and installation trusts by the ministries, agencies and main administrations in conjunction with the investment banks. After the head offices of the investment banks have checked the total amount of the credit limits granted to individual trusts against the limits approved by the government for a given ministry

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or agency, they inform their appropriate offices of the quarterly credit limits allotted to each trust. The trusts in turn distribute these quarterly limits among their economic subdivisions -- construction administrations, offices, sectors. The bank offices, after having checked the proper distribution of the limits within the trust, inform the appropriate bank branches of the credit allotted to each economic subdivision of the trust (making use of the form provided for that purpose). Trusts that use mutual clearing bureaus do not distribute their credit limits allotted for the purchase of construction materials, fodder and fuel. In those trusts the credit limits are allotted in their entirety to the special supply offices.

The credit limit may be disposed of in a similar manner by trusts where all or part of the credited construction materials are kept in storehouses of the supply office.

The credit limits allotted to contracting organizations under republic or local jurisdiction are communicated by the head offices of the investment banks to their offices for the republic, kray or oblast as a whole. The credit is then distributed among the republic and local contractors by the appropriate bank office in conjunction with the superior agencies of these contractors (republic ministries, Councils of Ministers of autonomous republics, Executive Committees of kray and oblast Soviets of working people's deputies and so forth).

Loans to state farms for the preparation of next year's operations or to cover the gap between the receipt of funds and outlays for the replenishing the herds are granted within the limits set by Sel'khozbank or its republic offices.

The credit limits are effective only for the quarter for which they have been allotted. The part of the limit that remains unused at the end of the quarter is closed and cannot be used during the following quarter.

Unlimited credit, i.e. credit not provided by the limits of the head offices of the investment banks, can be granted to contractors against clearing documents en route and for the payment of supplier bills in the form of guaranteed bank credit (in the case of ministries entitled to such credit).

Unlimited credit may also be granted to client projects for the payment of overdue debts to contractors of certain ministries for completed work and unlimited loans may be granted against impending payments of investment contributions (in the form of financial bonuses).

Twenty-five percent of the quarterly credit limits may be used by the heads of bank offices to grant loans covering temporary needs of the contracting organizations. These loans must be extinguished within the same quarter.

When the crediting of construction organizations is authorized by separate decrees of the Council of Ministers USSR (for the settling of inter-ministry accounts, the extinction of wage indebtedness, and

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so forth), the head offices of the investment banks thus inform their appropriate branches.

For each type of credit, the bank offices open separate loan accounts to the borrowers upon the receipt of the loan application and a statement of repayment obligations. The granting of a short-term loan requires the written authorization of the head of the bank office that grants the loan. This authorization is based on the recommendation of the credit inspector who investigated the legitimacy of the loan and on the proper execution of the documents presented by the borrower.

The bank offices are required to see to it that the loans issued are used for the purpose intended and that they are guaranteed by the material resources for the payment of which they had been granted. This control is carried out through the monthly certificates on the guaranteeing of advances and short-term loans (Form 4-a) that must be submitted by the credited contracting organizations. Failure to submit the certificates on the due date leads to the withholding of further credit. In that case, previous loans must be recovered immediately (in the established order or payment priority) and the borrower gets a 10-day notice to that effect.

If a check of the certificates (Form 4-a) discloses that the short-term loans are not fully guaranteed by the credited material resources, the bank has the right to recover the nonguaranteed part of the loan from the clearing account of the contracting organization in the usual order of priority of payments. The transfer of the nonguaranteed amount of the loan from the clearing account to the loan account must be approved by the head of the bank office.

Upon the receipt of the regular balance sheets from the credited contracting organizations, the investment banks check on the correctness of the data in the certificates on the guaranteeing of advances and loans (Form 4-a). If discrepancies are found between the certificates and the balance sheets, the reasons for such discrepancies must be established. If malpractices are established, the persons responsible for the false certificates must be made to answer for the acts in court. If on the basis of the balance sheet the bank finds lack of the proper guarantee for a short-term loan that had not been established at the time of the checking of the certificates, the bank has the right to transfer the appropriate amount from the clearing account.

The banks' use of short-term credit for control by the ruble over the economic and financial operations of credited construction organizations is a very important state matter.

In the case of overdue payments on short-term loans, the banks have the right to transfer the overdue amount from the clearing account of the borrower under the established order of payment priority; if funds are lacking in the clearing accounts, the amount may be taken from the special advance accounts.

If the payments of certain borrowers are regularly overdue and

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if mismanagement is established upon investigation, the banks may apply credit sanctions up to the complete withholding of credit.

In the case of overdue payments, the banks may raise the credit interest rate to 4 percent annually from the usual 2 percent.

As for contractors who fulfill their construction plans and properly handle their finances, the banks have the right to offer easy credit terms. They may cut the interest rate in half and increase the credit limits on seasonal deliveries of construction materials on the basis of the increased requirements related to the overfulfillment of the plan.

3. Credit for the Seasonal Deliveries of Construction Materials, Fodder and Fuel

Credit for the seasonal deliveries of materials falls into two types of short-term loans: loans for the delivery of construction materials in connection with a seasonal upswing in the volume of work, and credit for the delivery of construction materials, fodder and fuel related to seasonal shipment conditions.

The first of these loans is designed to make it possible for the contractors to accumulate material reserves at the start of the construction peak period. The need for material accumulation in excess of the planned norms arise from the fact that the work program of the contractors is distributed unevenly through the year while the advances supplied by the clients for the purchase of materials are calculated on the basis of average annual requirements.

The peak of construction usually comes during the most favorable weather conditions. It must be emphasized, however, that the technical level of the Soviet construction industry makes it possible to carry out construction work under any natural, climatic and atmospheric conditions. Our construction industry has lost its seasonal character and has become a year-round operation making use of all the achievements of science and technology. The fact is that the execution of certain types of construction would be irrational in the winter time and therefore the peak of the work occurs during the summer. This accounts for the quarterly fluctuations in the work programs.

Under these circumstances, bank loans for the seasonal accumulation of materials are granted when the work program of the next quarter is expected to exceed the average quarterly program.

Let us assume that a contractor has an annual work program of 40 million rubles (without any subcontracts). Let us assume further that this program is broken down as follows by quarters: first quarter -- 8.4 million rubles, second quarter -- 9.6 million rubles, third quarter -- 11.6 million rubles, and fourth quarter -- 10.4 million rubles. In this case, the work program of the third and fourth quarters, which makes up respectively 29 and 26 percent of the annual program, exceeds the average quarterly program of 10 million rubles.

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Credit in preparation for these peak periods may be granted during the second and third quarters so that appropriate accumulations of materials will be available at the start of the following quarters (the third and fourth).

The credit requirements for this purpose are calculated on the basis of a number of documents submitted by the credited organization: the report on the cost of construction (Form 28-cc), report on the receipt and outlay of construction materials in capital construction (Form 27-cc), and the balance sheet of the contracting organization (Form 36-cc).

Let us calculate the share of materials in the cost of construction-installation work in planning for credit during the third quarter of 1950.

Let us assume that during the first four months of 1950 the credited contracting organization did work worth 12 million rubles, with the cost of the expended materials, according to Form 28-cc, amounting to 6,960,000 rubles or 58 percent of the total cost. On the basis of the annual report (Form 27-cc) for 1949, the total cost of materials expended in that year was equal to 24.2 million rubles, of which 2,904,000 rubles or 12 percent were spent for prefabricated construction parts. This information is used to correct the data based on Form 28-cc:

$$58 - \frac{58-12}{100} = 51\%$$

This percentage is used to calculate the material requirements for the fulfillment of the work program of the following quarter (in this case the fourth) and the average daily expenditure of materials during that quarter. With the planned fourth-quarter program being 10.4 million rubles, the quarterly requirements in materials would be:

$$\frac{10,400,000 \times 51}{100} = 5,304,000 \text{ rubles.}$$

The average daily expenditure of materials (based on a 90-day quarter) is:

$$\frac{5,304,000}{90} = 58,930 \text{ rubles.}$$

The planned reserve of construction materials in days is determined by the amount of the basic part of the advance received from the client in accordance with the annual program of contracted construction-installation work. Given the total amount of the advance received for the purchase of materials (i.e. not including that part of the advance which is designed to cover incompleted construction work and the advances transferred to subcontractors) and given the average daily expendtiture of materials during the year, we can calculate the average planned reserve of construction materials in days for all contracts concluded by the given contracting organization.

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Let us assume that the part of the clients' advances intended for the purchase of materials amounts, according to the contracts and the balance sheet (Form 36-cc), 8 percent of the annual work program of 40 million rubles, or 3.2 million rubles. In this case the average daily expenditure of materials is calculated from the annual work program of 40 million rubles, the percentage share of 51 percent and a 360-day year:

$$\frac{40,000,000 \times 51}{100 \times 360} = 56,670 \text{ rubles.}$$

Whence the normal reserve of construction materials in days (calculated from the average annual needs for reserves covered by the clients' advances of 3.2 million rubles) is:

$$\frac{3,200,000}{56,670} = 56.47 \text{ days.}$$

Given the planned reserve of materials and their average daily expenditure in the next quarter, we can calculate the planned reserve of materials at the end of the current quarter. In the given case, this amounts to:

58,930 x 56.47 = 3,328,000 rubles.

If we now compare the calculated amount with the average annual reserve of materials covered by the clients' advances (3,200,000 rubles) we can determine the temporary need of the contracting organization for additional funds for the purchase of construction materials in connection with the seasonal construction peak. In the given case, the short-term credit requirement for that purpose amounts to:

3,328,000 - 3,200,000 = 128,000 rubles.

The information sent to the bank offices on the quarterly credit limits set for each contractor does not include all the calculations of the loan needs for the purchase of seasonal materials. The limit data on this type of credit includes only the following indicators: the remainder of construction materials planned for the end of the current quarter; the standard remainder of materials covered by clients' advances and the credit limit, which amounts to the difference between the two previous indicators.

In our example, the credit needs would be expressed as follows in the limit data (in thousands of rubles):

1.	Remainder of construction materials planned for the end of the current quarter	3,328
2.	Standard remainder of construction materials covered by the clients' advances	3,200
3.	Limit of bank credit (Item 1 minus Item 2)	128

Credit needs related to seasonal shipment conditions arise when

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construction department) is the advance transferred upon the instruction of the director of the future or existing enterprise to the chief of construction (or of the capital construction department). The amount of the advance is based on the norms of working capital established for contracting organizations. If the project is to make the most effective use of the working capital granted for the uninterrupted course of construction, it must properly organize its finances and prevent overstocking and indebtedness.

Projects operating by the economic method and financed in accordance with work completed are headed by a chief of construction (in the case of new projects) or the chief of the capital construction department (in the case of existing enterprises). Although the chief of construction (capital construction department) is subordinated to the director of the future (existing) enterprise, his functions are not circumscribed.

Economic relationships between the director of the future (existing) enterprise and the chief of construction (capital construction department) are based on the same principles as relationships between client and contractor in contracted construction.

The director, like the client, is the side that accepts the work, while the chief of construction is the side that executes and delivers the work. The director as the person in charge of the allocated appropriations fulfills the functions of technical inspection of the construction and sees to it that the construction items are completed on schedule. He supplies the project with properly approved plans and cost estimates, procures the equipment, construction machinery and transportation and takes measures to train personnel for the future enterprise.

The chief of construction, on the other hand, fulfills the construction and installation work assigned to him, being guided in this case not by a contract agreement but by a special list of construction work (Form 3) to be handled by the economic method. The chief of construction procures construction materials, hires workers and administrative and economic employes and organizes their work, and takes other steps related to the fulfillment of the work program.

The project that operates by the economic method and is being financed on the basis of work completed gets two bank accounts: the financing account of the director and the clearing account of the chief of construction. Payments from these accounts are made in accordance with the functions assigned to the director and to the construction chief.

The financing account is used to pay for completed construction-installation and geological exploration work, equipment, construction machinery, means of transportation, outlays for the training of personnel and the maintenance of the director's office of the future enterprise, advances to the chief of construction and to contractors who have agreements with the director, and other outlays related to operations handled by the director.

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The clearing account is used to pay for materials, prefabricated construction parts, low-value items, special clothing, transportation of materials and related services, overhead outlays, bills for work completed by contractors on the basis of agreements concluded with the chief of construction, wages and other outlays related to the fulfillment of the work program assigned to the chief of construction.

Work completed by the chief of construction is usually paid for on the same basis as contracted work. The basis for the payment is the work acceptance act (Form 2) signed by the director and the chief of construction. Only the completed parts of construction elements may be listed in the act.

There is, however, a certain difference in the procedure of paying for work done by the economic method. This difference is due to the fact that the project operating by the economic method and being financed on the basis of work completed is actually a part of the future (or existing) enterprise. As a result the system of transactions between the chief of construction and the director can be simplified.

It should be noted in the first place that acceptance acts of work done by the economic method are submitted only once a month, while contracted construction is also paid for on intermediate bills presented on a 10-day basis. In addition, acceptance acts do not require any accompanying bills and are paid merely on the basis of the director's payment instructions. It should also be borne in mind that projects financed by Prombank and Tsekombank with a total cost estimate of not more than 75,000 rubles and projects financed by Torgbank with a total cost estimate of not more than 25,000 rubles are paid for only upon final completion of the work.

When payment is made for completed work, the bank withholds any planned accumulations and the amounts envisaged by the construction cost reduction plan insofar as these are taken into account in the financing limits.

In addition the bank withholds part of the amortization deductions on the fixed capital of the project. This is done because the unitary rates at which payment is made for completed work include the total amount of amortization on construction machinery, transportation and other fixed capital, while only part of that amount is used for capital repairs. The difference between the total amortization fee and the part allotted to capital repairs is therefore withheld by the bank. Here is an illustration.

Let us assume that the value of the fixed capital of the project is 2,520,000 rubles, and the average amortization rate (excluding the capital repair part) is 3.3 percent. The amount of amortization allotted to the financing of construction is therefore:

per year $\frac{2,520,000 \times 3.3}{100}$ = 83,200 rubles

per quarter 20,800 rubles.

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If the construction program fulfilled during the quarter is 2,000,000 rubles, then the amortization rate allotted to the financing of construction in connection with this program is:

$$\frac{20,800 \times 100}{2,000,000} = 1.04\%.$$

Let us assume further that the planned accumulations of the project are 46,000 rubles a quarter, or 2.3 percent of the work program ($\frac{46,000 \times 100}{2,000,000} = 2.3\%$) and that the construction cost reduction plan was 6 percent. Consequently, 9.34 percent of the cost of the completed work is subject to withholding.

Accordingly, when acceptance acts for the amount of 800,000 rubles are presented, the amount withheld is:

$$\frac{800,000 \times 9.34}{100} = 74,700 \text{ rubles},$$

or 9.34 percent of the completed work.

The system of financing projects on the basis of completed work strengthens preliminary control on the part of the investment banks. In addition to the control function inherent in the payment of bills for materials, and the issuing of funds for wages and other outlays, the banks also check the acceptance acts of completed work (Form 2). This check is made, as in the case of contracted construction, both before and after payment (in the form of on-the-spot inspection).

The banks check the acceptance acts against the list of construction work (Form 3) received from the project and make certain that the acceptance acts contain only construction items that are listed in the itemized lists and that the cost of the completed work does not exceed the remainder of the cost estimate limit and the appropriations for the corresponding items. No payment is made for acceptance acts covering completed work that has not been supplied with properly approved plans and cost estimates.

One more special feature of the payment for completed work handled by the economic method remains to be noted. In those cases where the clearing account of the chief of construction lacks funds for the payment of wages, the director may use the financing account (in the order of priority for the payment of wages) to pay the chief of construction for completed work the amount necessary for the payment of wages. If the amount covering completed work is insufficient to cover the wage bill, then the director has the right to take from the financing account the amount necessary to pay the wages. The additional funds thus paid to the chief of construction must then be withheld from the payment of the following month's acceptance acts.

Of key importance in introducing and strengthening economic accountability in construction is the organization of internal economic accountability sectors. Such sectors are organized as a general rule

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in large projects that contain isolated construction items. Upon the request of the chief of construction, the banks may open separate clearing accounts to such internal economic accountability sectors. In those cases, transactions between the chief of construction and the sectors are handled in the same way as in the contracting method of construction.

2. The Formation of the Working Capital Granted to the Chief of Construction

If the chief of construction is to insure a normal progress of construction and installation work, he must dispose of sufficient reserves of construction materials, prefabricated construction parts, tools, special clothing and other materials. In addition, part of the capital of the project is constantly frozen in the remainder of incompleted construction and installation work.

In this connection the necessary working capital is allotted to the chief of construction. The capital takes the form of an advance that is granted by the director of the enterprise and is credited to the clearing account of the chief of construction.

Inasmuch as the enterprise and the construction project are part of the same economic operation, the advance is granted from appropriations based on a combined financing plan of the project.

In view of the fact that all the financial requirements of the project are covered by the amounts provided by the financing plan, any unused funds in clearing accounts and in the financing account of the project are returned to the budget at the end of the year.

As the construction work is being completed, the advance must be gradually returned so that it will be extinguished at the completion of the work.

Thus, unlike the contracting organizations with their permanent working capital, projects operating by the economic method and financed on the basis of completed work receive only temporary working capital. This difference is due to the organizational and economic features of projects operating by the economic method. Contracting organizations, which operate on one or more construction sites, do not cease their operations at the end of the operations on those sites, but continue to operate elsewhere in accordance with their work program. Therefore contracting organizations must dispose of permanent working capital. Projects operating by the economic method, on the other hand, carry out their work on a given site and terminate their operations upon the completion of the construction.

As we have pointed out in Chapter VII, there are no substantial differences between the structure of the working assets of projects operating by the economic method and finances on the basis of work completed and the structure of the working assets of contracting organizations. There are only individual differences in the remainders of low-value and rapidly depreciating items (they amount to less than 3 percent) and in the manner of paying for work completed.

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Payment for work completed by the economic method is made once a month and consequently the chief of construction requires sufficient working capital to tide him over until the next payment date. The funds allotted for that purpose amount in an average to 5.6 percent of the annual work program.

However, the requirement in funds for that purpose is not taken into account in the planning of the mobilization of internal resources for the project as a whole since it corresponds to an equivalent credit in the director's account. Therefore the stated requirement in funds must be covered by the advance issued to the chief of construction.

Projects operating by the economic method, unlike the contractors, do not use bank credit for the seasonal accumulation of materials, a factor that must be taken into account in the calculation of the advance. Since the quarterly advance is calculated on the basis of the annual work program (the quarterly program multiplied by four), additional funds must be advanced for the seasonal purchase of materials. The amount of these additional funds is calculated in the same manner as if credit were to be granted to a contracting organization.

Projects financed by Prombank and within the Tsekombank system on the basis of work completed also required fund to cover remainders of incompleted construction on items with a total cost estimate of less than 75,000 rubles (in the case of Torgbank financing, less than 25,000 rubles), for which payment is made only upon completion of the entire item. The magnitude of the remainder of such incompleted construction depends chiefly on the number of such items and their estimated cost.

The advance issued to the chief of construction also includes the working assets shown on the balance sheet of the project as of 1 January of the current year (insofar as they refer to work completed by the chief of construction). The amount advanced must also take into account the need for termination of any abnormal indebtedness to the project. Finally the advance must include the cost of the work completed in December of the preceding year, payment for which is made during the current year.

Let us illustrate the calculation of the advance with an example.

The annual work program assigned to the chief of construction will be 6 million rubles. The quarterly breakdown of this program is:

> first quarter -- 1.2 million rubles, second quarter -- 1.5 million rubles, third quarter -- 1.7 million rubles, fourth quarter 1.6 million rubles.

The need for seasonal shipments of lumber during the fourth quarter amounts to 150,000 rubles.

The project is expected to start work during the second quarter and complete work during the third quarter on three items with an estimated cost of less than 75,000 rubles. In accordance with the work schedule, two items worth 125,000 rubles must be started 1 May and completed 15

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July, while the third item must be started 10 May and completed 20 July. The construction time on the first two items is 75 days, and on the third item 70 days.

Consequently, during the second quarter the project will require funds to cover the following outlays: on the first two items $\frac{125,000 \times 60}{75}$ = 100,000 rubles and on the third item $\frac{70,000 \times 50}{70}$ = 50,000 rubles, or a total of 150,000 rubles.

According to the balance sheet as of 1 January, the project had a credit, exceeding the normal credit by 50,000 rubles, for work previously completed.

The amount of material resources and other working assets issued to the chief of construction was 900,000 rubles as of 1 January. And payment for work completed last year and effected during January amounted to 500,000 rubles.

On the basis of a norm of 19 percent (which takes into account funds required to cover the cost of prefabricated construction parts and outlays for incompleted construction and installation work) and on the basis of the work program of each quarter, which is converted into the annual program by multiplying by four, we can calculate the working capital requirements of the chief of construction:

in the first quarter $\frac{1,200,000 \times 4 \times 19}{100}$ = 912,000 rubles.

in the second quarter $\frac{1,500,000 \times 4 \times 19}{100}$ = 1,140,000 rubles

in the third quarter $\frac{1,700,000 \times 4 \times 19}{100}$ = 1,292,000 rubles

in the fourth quarter $\frac{1,600,000 \times 4 \times 19}{100}$ = 1,216,000 rubles.

The part of the advance allotted for outlays pending payment for completed work is:

for the first quarter $\frac{4,800,000 \times 5.6}{100}$ = 269,000 rubles

for the second quarter $\frac{6,000,000 \times 5.6}{100}$ = 336,000 rubles

for the third quarter $\frac{6,800,000 \times 5.6}{100}$ = 381,000 rubles

for the fourth quarter $\frac{6,400,000 \times 5.6}{100}$ = 358,000 rubles

On the basis of these data, the advance to be issued to the chief

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of construction (in thousands of rubles) is:

for the first quarter 912 / 269 / 50 = 1,231

for the second quarter 1,140 / 150 / 336 = 1,626

for the third quarter 1,292 / 381 = 1,673

for the fourth quarter 1,216 / 150 / 358 = 1,724

If we now take into account the existing working assets as of 1 January of 900,000 rubles and the amount of 500,000 rubles paid in January for work completed in December of last year, the advance to be issued to the chief of construction for each quarter must be corrected as follows:

in the first quarter --a reduction by 169,000 rubles (900,000 / 500,000 - 1,231,000)

in the second quarter -- an increase by 395,000 rubles (1,626,000 - 1,231,000)

in the third quarter -- an increase by 47,000 rubles (1,673,000 - 1,626,000)

in the fourth quarter -- an increase by 51,000 rubles (1,724,000 - 1,673,000).

This is, however, only the preliminary calculation. As we stated above, the director and the chief of construction are essentially part of the same operation and base their financial transactions on a combined financial plan approved for the project. The ministries and main administrations may establish for projects under their jurisdiction plans for the mobilization of internal resources that exceed the plan indicated by the amount of the advance based on average norms. This would mean that the ministry or the main administration establishes lower norms for the given project. In calculating the amount to be advanced, the director must therefore be strictly guided by any changes in working assets and credits provided by the approved financing plan (Form 5).

The plan for the mobilization of internal resources and changes in working assets are expressed in the financial plans (financing limits) by a single amount. This amount must be apportioned by the director in accordance with the division of functions between the chief of construction and himself.

Using the example given above, we will now illustrate the procedure followed in calculating the advance in accordance with the apportionment of the plan for the mobilization of internal resources between the chief of construction and the director.

Let us assume that the financing plan (Form 5) provides an annual immobilization of 350,000 rubles (including a rise in working assets

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by 300,000 rubles and the extinction of debts to the project of 50,000 rubles), with the following quarterly breakdown: I - 60,000 rubles, II - 240,000 rubles, III - 25,000 rubles, and IV - 25,000 rubles.

In accordance with the director's apportionment of the plan for changes in working assets and debts owed to the project, of the 350,000 rubles 300,000 are allotted to the chief of construction and 30,000 to the director. The quarterly breakdown of the chief of construction's share would be 60,000 rubles in the first quarter and 240,000 rubles in the second quarter, and the quarterly breakdown of the director's share 25,000 rubles each in the second and third quarters.

If we now take into account the data of the preceding example regarding the January payment for work completed in December and the amount advanced pending payment for completed work, the advance for the first quarter would have to be reduced by 171,000 rubles [500,000 - (269,000 + 60,000)], instead of 169,000 rubles, as shown in the preliminary calculation, and the advance for the second quarter would have to be increased by 307,000 rubles [204,000 + (336,000 - 269,000)], instead of 395,000 rubles, as shown in the preliminary calculation.

For the second semester, when no change is envisaged in the working assets and the credit of the chief of construction, the advance need be corrected only insofar as it affects the outlays pending payment for completed work, as follows: the advance should be increased by 45,000 rubles in the third quarter and reduced by 23,000 rubles in the fourth quarter, instead of the increases by 47,000 and 51,000 rubles shown in the preliminary calculation.

The bank verifies the calculation of the advance to be issued to the chief of construction and then transfers the amount to the clearing account of the chief of construction upon receipt of the appropriate instructions from the director. In making its check, the bank must also be guided by the procedure described above for apportioning the approved plan for the mobilization (immobilization) of internal resources as given in the financing limit. If too large an advance has been issued to the chief of construction, the director instructs the bank to transfer the excess amount from the clearing account to the financing account within a set time period. If such an instruction is not forthcoming from the director, the bank may effect the transfer on its own initiative.

If as a result of its check the bank finds that the advance issued to the chief of construction exceeds the existing norms, the bank asks the director to reduce the advance accordingly. If the director refuses to reduce the amount of the advance, the bank may pose the question to the ministry or main administration.

It should be noted that these financing and control procedures apply to the offices of Prombank and Tsekombank.

The procedure followed by Sel'khozbank differs somewhat. As we stated above, all projects under the jursidiction of Sel'khozbank that have an annual work program of more than 150,000 rubles are financed on

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the basis of work completed. In the case of projects financed by Sel'khozbank no chiefs of construction are designated and therefore acceptance acts of work completed (Form 2) are signed only by the director of the enterprise, the person in charge of the work and the bookkeeper. These projects also have a clearing account and a financing account in Sel'khozbank, both being under the control of the director. No lists of work to be done by the economic method (Form 3) are compiled for these projects. The Sel'khozbank offices check payments against the itemized list of work (Form 1) and the unitary rates used in the cost estimate.

Projects financed by Sel'khozbank on the basis of work completed get a maximum advance of 25 percent of the annual work program. If construction is to be completed in the given year, the advance must be paid off in proportion to the work completed; if the projects carry over into the following year, no part of the advance is withheld during the current year. Additional advances may be issued for the seasonal purchase of materials. Such additional advances must be paid off not later than 1 November of the current year.

3. Financing on the Basis of Individual Outlays

Below-limit projects and above-limit projects with an annual work program of less than 500,000 rubles (in the case of state agricultural enterprises, less than 150,000 rubles) that are operated by the economic method are financed on the basis of individual outlays.

In that case the bank issues funds to the projects within the limits of the financing plans (Form 5) for the payment of supplier bills for materials, equipment, prefabricated construction parts, tools, special clothing and so forth, for wages and administrative and other expenses.

In issuing funds for the payment of individual items, the banks carry out preliminary control of the same type as in any other construction method, i.e. they check the prices of materials and equipment, the wage fund and the limits of administrative outlays. Such a check of the individual outlays is the only form of preliminary bank control, and the system of financing on the basis of individual outlays is therefore inferior to the system of financing on the basis of work completed. In the case of projects that are financed on the basis of work completed, the banks can combine preliminary control of outlays with a check of bills and acts for completed work and make payments on the basis of work completed in accordance with the unitary rates established in the cost estimates.

When projects are being financed on the basis of individual outlays, it is therefore especially important that the banks also maintain subsequent control over the utilization of funds by investigating and analyzing the audits of the projects. In such an analysis, they should compare the volume of work completed with the amounts paid for the financing of the project, check on the fulfillment of plans for changes in the remainders of working assets and credits and verify the stocks of materials and the accounting items of the project. Such an analysis should be designed to uncover any excessive and unnecessary stocks of

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materials and any abnormal debits and credits; if such a situation exists, measures should be taken to release the excess stocks and to bring order into the transactions with suppliers.

In investigating the projects and analyzing their audits, the banks should devote attention to the fulfillment of plans of construction and the inauguration of newly completed construction items and uncover any construction that is not backed up by plans and cost estimates, any mismanagement or other infractions of financial discipline.

As a result of such subsequent control, the bank must determine whether the project has fulfilled its plan for the reduction of construction costs. To that end the bank checks how the project has been implementing measures designed to improve the organization of construction, increase the degree of mechanization, introduce industrialized construction methods, economize in the expenditure of construction materials and wages, and reduce transportation and overhead outlays.

It is thus only after subsequent control that the banks can determine whether the funds issued to the projects have been used for their specific purposes.

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CHAPTER XI

BANK CONTROL OVER THE EXPENDITURE OF THE WAGE FUND AND OVERHEAD OUTLAYS

1. The Importance of Control over the Cost of Construction in Issuing Funds

Bank control over construction has one basic purpose, and that is to obtain a systematic reduction of construction costs. This key task of the banks stands out both in the controlled issuing of funds for individual construction costs and capital investment items and in the process of analyzing economic operations on the basis of audits and on-the-spot investigations.

Of the individual construction cost items, bank control extends in the first place to the wages of the construction workers.

An economical expenditure of the wage fund compared with the cost estimate appropriations is reflected by a rise of labor productivity, better organization and improved mechanization of the work, the introduction of industrialized construction methods and general improvement of the construction business.

In controlling the payment of funds for wages and its relationship to the completed work program, the investment banks improve the organization of construction and reduce its costs.

A major part of the workers in construction are engaged in auxiliary enterprises that produce prefabricated parts and perform a variety of services. Control over the economical expenditure of wages in those enterprises also leads to a reduction in the cost of materials, services and construction work in general.

About one-sixth of the cost of construction work is made up of overhead, chiefly administrative expenses. These outlays are strictly regulated by special government decisions. Bank control over observance of the overhead norms when payment is made for completed construction work and the proper and economical expenditure of the wage fund for administrative personnel produces a reduction of these outlays as a share of the total construction cost.

The most important share of outlays is for materials required for construction (construction materials, equipment, auxiliary materials, fuel, tools and implements, and so forth). Adherence to established prices for these products and to the transportation rates is of key importance in the final cost of capital construction. Therefore control over prices for these materials and equipment, the transportation rates and rates for loading and unloading operations is an important part of over-all bank control over the cost of construction.

Of the other outlays, the most important for the cost of construction are rent for construction machinery and charges for steam, power, compressed air, water and so forth. Overexpenditures and increases in the cost of construction can be eliminated if these outlays are properly

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checked and payment is made strictly according to established rates.

A list of all the control functions of the investment banks shows that most of the outlays can be checked at the time payment is made by the banks. Strict execution of these control functions is of key importance for the economy of funds spent in capital investments.

The preliminary check of capital investment outlays on the part of the banks does not exhaust their control over the cost of construction. Of just as much importance is subsequent bank control consisting of an analysis of audits and verification of outlays on the basis of primary documents and bookkeeping entries. Both types of control actually make up a single control system.

2. The Procedure of Planning the Wage Fund in Construction

Outlays for wages are the second most important element (after construction materials) of the cost of construction, with their actual share depending on the organization of the construction work and the degree of industrialization and mechanization of construction operations.

The construction industry has been encouraging the maximum introduction of mechanization in construction processes (especially labor-consuming processes) and industrialized working methods through the use of prefabricated construction parts and subassemblies. Highly industrialized construction requires a smaller number of workers with higher skills and tends to cut the share of wages in the total construction outlays.

Highly industrialized, high-speed construction consists chiefly of the assembling and installation of prefabricated parts with the aid of cranes and machines, with most of the prefabricated parts being manufactured off the construction site and delivered in finished form.

The Socialist principle of labor organization provides for three forms of payment -- individual piece rate, collective piece rate, progressive premiums -- that are now being applied to nearly all workers in construction. These forms of payments are based on existing output norms and wage rates per unit of production of a certain quality. These relationships are used in planning the wage fund and for the control of wage payments to projects and construction organizations.

The progressive premium and bonus system used in construction stimulates a rise in labor productivity and insures fulfillment and overfulfillment of output norms.

Hence the need for bank control over the issuing of bonuses to workers and engineers who fulfill and overfulfill production plans and insure the completion of construction items on time.

Construction workers are divided into those engaged in basic construction, i.e. actual construction and installation work, and those engaged in auxiliary activities. Auxiliary activities include: the mining and processing of construction materials, the manufacture of pre-

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fabricated parts and subassemblies, the production of power and steam and the supply of water; transportation of all types, security, storage and residential-municipal work.

Workers engaged both in basic and auxiliary activities are grouped into workers, engineers and technicians, employes and junior assistants.

The wage fund is set up separately for each worker category and each type of operation according to labor plans approved for each project and each construction organization by the superior agency.

The wage fund covers both the wages of the workers listed in the payroll and those not listed, the so-called non-payroll wages.

The wage fund of workers engaged in basic construction depends on the number of workers, the number of working days in the plan period and the average daily output and wages per worker.

The average daily output per worker in money terms is the estimated cost of his construction work performed in the course of a working day. The wage outlay corresponding to the estimated cost of the average daily output is the average daily wage per worker.

The average daily output and the average daily wage per worker are the key indicators needed in planning the wage fund.

The relationship between the average daily output and the average daily wage varies in different projects according to the make-up of the construction work. The greater the consumption of prefabricated parts and high-cost materials (brickwork, reinforced concrete, marble and so forth) the greater is the value of output and the lesser the amount of wages. On the other hand, the greater the share of labor consuming operations and the use of few or cheap materials (earthwork, finishing work, repair work), the smaller is the value of the output and the greater is the amount of wages.

Mechanization of construction and installation work and the use of industrialized construction methods (use of prefabricated parts and subassemblies) in all cases tends to raise the average daily output per worker and reduces the share of wages.

The share of wages in the total cost of construction thus reflects the degree of labor consumption, mechanization and industrialization in construction.

The average daily output norm per worker is set by the labor plan on the basis of the actual output achieved by leading workers, the planned rise in labor productivity, the planned structure of the construction work and its labor-consuming nature.

The wage fund is calculated for the project as a whole on the basis of the average daily wage per worker, which is set by the labor plan together with the average daily output norm on the basis of the cost estimate rates and the planned rise in labor productivity.

Given the approved work program and the approved average daily output, we can calculate the number of man-days and the planned number of

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workers required to fulfill the program. Here is an example.

Given a work program of 2.1 million rubles and an average daily output of 75 rubles, the required number of man-days would be $\frac{2,100,000}{75}$ = 28,000 man-days and the number of workers (based on 75 working days in a quarter) would be $\frac{28,000 \text{ man-days}}{75 \text{ days}}$ = 373 workers.

If we multiply the planned average daily wage of 15 rubles by the calculated number of man-days, we get the wage fund: 15 rubles x 28,000 = 420,000 rubles, or $\frac{420,000 \times 100}{2,100,000}$ = 20 percent of the work program.

The planned wage fund includes in addition to the basic wage also the additional wages and bonuses paid in the progressive premium system or provided by special sources approved for the given project.

To obtain the total wage fund of workers engaged in basic construction, we must add 6 to 7 percent for additional wages and bonuses on the basis of the planned overfulfillment of output norms and the rise in labor productivity. In our example, additional wages of 6.5 percent would amount to 27,000 rubles and bonuses based on the planned overfulfillment of output norms would be 10 percent or 42,000 rubles, thus raising the total wage fund to 489,000 rubles.

In contrast to basic construction, auxiliary activities are made up by a complex of nonhomogeneous operations that complicate the planning of the wage fund for these activities.

Enterprises and operations included in these auxiliary activities can be divided into the following groups: (1) enterprises engaged in mining, processing and manufacturing construction materials and prefabricated parts; (2) auxiliary enterprises related to the supply of compressed air, power, steam, water and so forth; (3) transportation and loading and unloading operations; (4) repair enterprises.

In the first group, output is planned by quantity or weight on the basis of fixed prices for the given product. The wage fund is therefore planned in the same manner as for basic production.

In the second group, electric power, water and steam services are values at approved rates or calculations (per unit of power, water or steam). The wage fund of workers employed here is based on the planned number of workers and the average daily wage according to approved norms.

Transportation services are valued per ton-kilometer according to established state rates or approved calculations. The wage fund of workers in transportation is based on the planned number of workers and the established average daily wage.

Loading and unloading operations are valued in terms of the value per ton of the handled freight based on approved calculated rates. The wage fund in this case is based on the planned number of workers and

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the planned average daily wage.

Repair work is planned in money terms and the related wage fund is based on the number of workers and their planned average output and wage.

The total planned output of production in money terms, the cost of services and the wage fund of all auxiliary activities is therefore the sum total of the plans of the groups listed above.

The share of wages in the value of the production and services of each group tend to vary: in transportation, wages exceed 50 percent of the cost of a ton-kilometer, while in the mining and processing of construction materials, wages are less than 20 percent.

Unevenness in the fulfillment of the plan of certain auxiliary activities tends to produce artificial overexpenditures or economies in the wage fund.

In other auxiliary activities, such as residential and storage services that are not planned on the basis of an annual program, the wage fund is based on the planned number of workers and the average wage.

The table of organization (the make-up of and relationships among individual administrative subdivisions), the personnel (numbers and titles of duties) and the fixed monthly pay rates in projects and construction organizations are all subject to approval by the State Personnel Commission for basic construction and auxiliary activities. The personnel and the pay rates, including extra pay (such as bonuses for length of service, personal rates, bonuses ordered by special government decisions for certain branches of industry and of the economy), are registered in the organs of the Ministry of Finance USSR.

In the case of major ministries, the government approves model tables of organization and pay rates by categories of construction organizations in accordance with the completed work program.

The wage fund of administrative and technical personnel is based on the approved number of employes and the average pay rate, calculated separately for engineering and technical personnel, employes and junior assistants both in basic construction and in auxiliary activities.

All these labor indicators (number of workers of all categories, output, average wage) and the wage funds are reflected in the labor plan, which is the basic planning document in construction.

As part of the national economic plan, the Council of Ministers USSR approves annual and quarterly labor indicators for each ministry and central agency. Using those indicators, the ministries then work out the labor plans for main administrations, independent projects and independent construction organizations and the main administrations work out the plans for the trusts and projects under their jurisdiction. The trust, in turn, draws up labor plans for the primary construction organizations under its jurisdiction.

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The labor plans should serve as the guiding documents for projects and construction organizations and are the basis on which the investment banks issue funds for wages and carry out their control functions.

3. Bank Control over the Expenditure of the Wage Fund

We have previously stressed the key political and economic task of the banks in insuring control over the expenditure of wages as one of the most important ways of cutting construction costs.

The banks use a variety of methods to that end: they analyze the labor plans; they carry out a periodic check of the proper distribution of the wage funds of ministries and main organizations among their subordinated organizations; they control the expenditure of wages directly at the time the corresponding funds are issued; they make a subsequent check of labor and wage audits; they investigate the causes for overexpenditures and economies in wages by use of primary documents.

Let us now discuss the operational control system used by the banks in the payment of wages to the construction workers.

The Procedure of Issuing Funds for Wages in Above-Limit Construction. -- The wages of workers engaged in the basic construction and auxiliary activities of above-limit projects and contracting organizations working on above-limit projects (or simultaneously on above-limit and below-limit projects) are issued by the investment banks on the basis of the submitted labor plans) and wage payment certificates only insofar as the work program is being completed. Upon receipt of the labor plans the bank branches verify the proper approval of the plans and the listing of all required indicators.

The final issuing of funds for the monthly wages is based on wage payment certificates that are drawn up in the following form.

/See "WAGE PAYMENT CERTIFICATE" next page/

Upon receipt of the certificate, the bank checks the information first of all against documents available at the bank as follows.

The approved quarterly work programs and wage funds relating to construction-installation work and auxiliary activities are checked against the approved annual labor plan and its quarterly breakdown.

The services of residential-municipal activities, supply and storage and so forth are not planned and the bank in this case ascertains only whether the wages of these activities correspond to the fulfillment of the construction-installation plan.

The fulfillment of the work program, in the case of projects and contractors financed on the basis of work completed, is checked against the work acceptance acts of the given month. The amount of work completed according to the acts is corrected for the remainder of incom-

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Name of Construction Organization .....

To the Moscow City Office (Branch) of the Bank

Clearing Account No. 137,203

WAGE PAYMENT CERTIFICATE
for October 1950

(in thousands of rubles)

	Construction-Installation Work	Auxiliary Enterprises, Transport, and Other Auxiliary Activities	Residential-Municipal, Supply-Storage and Other Activities	Total
1	2	3	4	5
1. Approved quarterly work plan	2,400	300		
2. Completed during the month	600	120		
3. Percentage of fulfillment	25	40		
4. Approved quarterly wage fund	400	90	40	530
5. Wages due according to plan on the basis of completed work	100	36	10	146
6. Actual wages paid	98	36	9	143
7. Advance received from bank				50
8. Withholdings and transfers				10
9. To be paid by the bank				83

Chief (signature) Chief Bookkeeper (signature)

pleted construction at the start and the end of the given month.

In the case of contractors and projects financed on the basis of work completed, the incompleted construction includes both incompleted parts of construction elements and entire incompleted construction items to be completed within three months (in the case of contractors) or having an estimated cost of less than 75,000 rubles (in the case of projects). In the case of construction elements, the amount of incompleted construction as of the 1st of each month is based on the corresponding unilateral acts, and in the case of entire incompleted construction items on the total amount paid thus far by the clients on bills for completed

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work. On the basis of these acts and the paid bills, the amount of incompleted production is then calculated in the balance sheets of the contractors and projects.

If the value of incompleted work as of the 1st of the following month is greater than the value of incompleted work as of the 1st of the given month, then the volume of completed work must be increased by the difference in the two amounts. In that case the payroll certificate is corrected accordingly since the wages must be calculated on the basis of all work performed during the given month, both completed and incompleted.

On the other hand, if the value of incompleted construction has dropped in the course of the payroll month, the volume of performed work must be reduced by the difference between the amounts of incompleted work at the start and the end of the month, since the incompleted work that was completed in the course of the month had been paid for during the preceding month. Let us illustrate this with an example.

The quarterly work program of a contracting organization is one million rubles and the wage fund of workers engaged in basic construction is 200,000 rubles or 20 percent of the work program. In the first month of the quarter, the work performed and delivered to the client amounted to 300,000 rubles, or 30 percent of the quarterly plan, and the corresponding wages are $\frac{200,000 \times 30}{100}$ = 60,000 rubles. Incompleted construction as of the 1st of the second month was valued at 50,000 rubles, corresponding to 10,000 rubles in wages.

The certificate should therefore show the total volume of performed work as 350,000 rubles (300,000 / 50,000), or 35 percent of the quarterly plan, corresponding to 70,000 rubles in wages.

In the second month of the quarter, the work performed amounts again to 300,000 rubles, or 30 percent of the plan, corresponding to 60,000 rubles in wages. There was no incompleted construction as of the 1st of the third month and therefore the difference in the remainders amounts to 50,000 rubles.

The 60,000 rubles allocated for wages during the second month thus include 10,000 rubles for work that was completed in the course of the month and for which wages had been paid during the first month.

Since the wage payment certificate must show the wages that have actually been allocated to the second month, the volume of performed work must be reduced by the difference in the remainders of incompleted construction, or 300,000 - 50,000 = 250,000 rubles. The quarterly plan fulfillment during the second month was thus 25 percent, corresponding to wages of: $\frac{200,000 \times 25}{100}$ = 50,000 rubles.

The wages for construction-installation work for a given month are thus allocated on the basis of the percentage of the quarterly work program performed during that month.

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The value of output of auxiliary enterprises and the services of transportation and auxiliary enterprises are listed in the wage payment certificate in planned prices and are checked against the audit data of the project.

Wages for auxiliary activities can be allocated in two ways. If the project or the contractor has an approved plan for the output of production and services in auxiliary activities, wages are allocated as in the case of construction-installation work, except that they may not exceed the wages actually paid. If there is no plan for output of production and services, the wages are allocated on the basis of the percentage of construction plan fulfillment, but again not exceeding the amount actually paid.

The reason why the allocated wages may not exceed the amount actually paid is that, according to existing regulations, wage economies in auxiliary activities must not be covered by overexpenditures for construction and installation work. On the other hand, economies achieved in basic construction may be covered by overexpenditures in auxiliary activities. The banks charged with control functions must therefore prevent overexpenditure of wages for basic construction and see to it that such overexpenditures are not covered by incidental economies in auxiliary activities.

As for residential-municipal services, supply and storage and other activities, the wages are in all cases allocated on the basis of the percentage of construction plan fulfillment.

The wage payment certificate also shows the calculation of the wages due by the bank: the wages actually paid are reduced by the advance previously received from the bank and by any noncash transfers (state loan and social security deductions), with the remainder being the amount to be paid by the bank.

After the correctness of the execution of the certificate has been checked, the bank calculates the amount to be paid to the construction organization for wages and draws up a statement about the payment conditions. If the amount actually paid is less than the amount calculated by the bank on the basis of the volume of work performed (according to the wage payment certificate), payment is made without any difficulties.

If the amount actually paid exceeds the amount calculated by the bank, the bank for the time being pays the lesser amount, pending authorization for the payment of the difference.

An overexpenditure of 6 percent of the total quarterly wage fund, if incurred for the first time in the current year, may be authorized by the head of the bank branch (provided the project explains the reasons for the expenditure and pledges elimination in the future).

Overexpenditure by second offenders may be authorized only by the chief of the main administration or, in the case of projects directly under a Ministry, by the Minister himself (or a deputy). At the same time the project must be instructed to end such overexpenditure and

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improve the organization of labor.

Any overexpenditure exceeding 6 percent in the course of the year may be authorized only by the Minister himself and the construction organization must state what measures have been adopted to eliminate wage overexpenditure in the future.

When the amount of the overexpenditure is calculated, the following must be borne in mind: economies in the current month's wage fund for construction and installation work can be taken into consideration in paying any wage overexpenditure for auxiliary activities; economies in the total wage fund achieved during previous months of the same quarter may be taken into consideration in the payment of overexpenditure during the current month. Achieved economies may not be transferred from quarter to quarter. Let us use the following illustration.

Suppose that the wages paid for auxiliary activities are 46,000 rubles instead of 36,000 rubles /as listed in the payroll certificate on page 205/. The resulting overexpenditure of 10,000 rubles would be partly covered by an economy of 2,000 rubles in basic construction (98,000 rubles charged against 100,000 rubles allocated by plan) and the over-all overexpenditure thus amounts to 8,000 rubles (10,000 - 2,000), or 1.5 percent of the total quarterly wage fund of 530,000 rubles. The economizing of 1,000 rubles in "other activities" (9,000 as against 10,000) may not be used to cover overexpenditure in auxiliary activities.

If the overexpenditure in this case is the first during the current year, it may be authorized by the head of the branch bank, provided the project states the reasons for the overexpenditure and the steps that will be taken to eliminate it.

Suppose that the overexpenditure of 8,000 rubles was incurred in August, i.e. in the second month of the third quarter, and that wage economies of 8,000 rubles had been achieved in July.

In that case the overexpenditure in August is covered by the economies in July and no overexpenditure is registered.

If, however, the economies achieved in July amounted to only 4,000 rubles, then the remaining 4,000 rubles of August overexpenditure, or 0.75 percent of the quarterly wage fund, would be registered as an overexpenditure.

The overexpenditures and economies in wages discussed above are called relative since they are obtained by comparing the wages actually paid with the amount allocated to the performed output of work or the production and services of auxiliary activities. A relative overexpenditure may thus occur even before the quarterly wage fund has been expended.

However, when the wages actually paid exceed the amount of the wage fund and the work plan remains underfulfilled, then the overexpenditure is called absolute.

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If an absolute wage overexpenditure has been incurred with an underfulfillment of the plan, then the project must submit a certificate on additional wage funds (which may be allocated through redistribution of the wage fund within a main administration or Ministry).

An overfulfillment of the construction plan or of the plan of auxiliary enterprises and transportation services usually results in wages being paid in excess of the approved wage fund.

If the amount of the paid wages is proportional to the overfulfillment of the plan, i.e. if the wages are calculated with the same percentage (or less) as the overfulfillment of the plan, then the banks make payment without any difficulties.

If the plan is overfulfilled and the paid wages exceed the amount allocated on the basis of the performed work program, then the wages are also paid by the banks in their entirety, but the organizations are required to submit to the banks certificates from the main administration on the allocation of additional wage funds equal to the amount of the relative overexpenditure. If such a certificate is not submitted, the banks may withhold the amount of the paid overexpenditure from the funds issued for wages for the first month of the following quarter.

For example, let us take a project that has for the third quarter a construction program of 500,000 rubles and a production and services plan in auxiliary activities of 150,000 rubles, with a corresponding quarterly wage fund of 100,000 rubles for construction, 30,000 rubles for auxiliary activities and 15,000 rubles for other activities.

During July and August, 400,000 rubles worth of work was performed and 80,000 rubles in wages were paid. In auxiliary activities, output worth 120,000 rubles was produced and 25,000 rubles in wages were paid, while 10,000 rubles in wages were paid for other activities.

The corresponding figures for September were 150,000, 300,000, 40,000, 10,000 and 5,000 rubles.

Thus, for the third quarter as a whole the construction work amounted to 550,000 rubles, or 110 percent of the plan (plan -- 500,000 rubles, fulfilled 400,000 plus 150,000) and the corresponding wages amounted to 110,000 rubles or 110 percent of the fund (wage fund - 100,000 rubles, actual wages 80,000 plus 30,000 rubles). Funds for these wages may be paid by the bank without any difficulties as the overexpenditure of wages is proportional to the overfulfillment of the plan.

In the case of auxiliary activities, the output plan was overfulfilled by 106.7 percent (plan -- 150,000 rubles, fulfilled 120,000 plus 40,000 rubles equals 160,000 rubles), while the actual wages amounted to 116.7 percent (wage fund -- 30,000 rubles, actual wages 25,000 plus 10,000 rubles equals 35,000 rubles) or an overexpenditure of 10 percent. For this overexpenditure of 5,000 rubles in wages the project must subsequently submit a certificate on additional wage funds.

In connection with their wage accounts, the banks keep special

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files in which they note both the approved wage funds and the amounts actually paid out to the construction organizations. Unused remainders of the wage funds are closed at the end of the quarter and may not be carried over to the following quarter.

The Procedure of Issuing Funds for Wages in Below-Limit Construction

Below-limit projects operating by the economic method and contractors who work only on below-limit projects receive wage funds from the banks within the limits of the approved wage fund and within recalculation on the basis of performed work. Such organizations submit to the banks the approved labor plan with the statement of the wage fund for the current year and a quarterly breakdown. To receive payment for wages they submit monthly wage payment certificates (see form below)

Name of Project

Clearing Account No. 401,206

WAGE PAYMENT CERTIFICATE

Charged for Wages Paid to Workers in October 1950

Paid Wages	Advance from the Bank	Withholdings and Deductions	Due from the Bank
49,387.81 rubles	20,000 rubles	7,237.31 rubles	22,150.50 rubles

Approved quarterly wage fund -- 150,000 rubles

Wages paid since start of year -- 367,189.49 rubles

Chief of organization or institution (signature)

Chief bookkeeper (signature)

Moscow
10 November 1950

The amounts paid by the bank are recorded in special wage payment files. As soon as the wage fund is exhausted, the banks cease wage payments. These can be renewed only upon receipt of a new labor plan in which the wage fund for the current quarter has been increased.

Even though the banks pay out wages only within the limits of the wage fund, they do check the wage outlays against the fulfillment of the construction program. In case of overexpenditure, the bank asks the

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projects and contractors to take appropriate measures.

If the overexpenditures do not cease, the banks are required to use financial sanctions and accordingly inform the superior construction agency and, if necessary, the local government authorities.

Wage payments are made to geological prospecting organizations on the same basis as to below-limit projects.

The Procedure of Issuing Funds for Bonuses. Funds for the granting of bonuses to construction workers for the overfulfillment of work plans are issued by the banks on the following basis: according to the results of All-Union Socialist Competition or according to special government decisions outside of the wage fund; or from special, permanent sources within the wage fund.

The granting of bonuses to engineering and technical personnel and employes for the fulfillment of monthly construction plans is regulated by a uniform decree that applies to all ministries and agencies. The granting of bonuses is contingent upon the submission of data confirming the fulfillment of the work plan, the plan of inauguration of new construction items and the plan for construction cost reduction. Bonuses are granted from the wage fund of the administrative and economic personnel provided there are economies in excess of plan.

Bonuses for the inauguration of key construction items on or ahead of schedule are granted to engineering and technical personnel and employes according regulations applicable to all ministries and agencies, provided the estimated cost of construction and all construction quality requirements have been observed.

In both cases bonuses are granted outside of the limit of administrative-economic outlays.

Bonuses to geological prospectors are granted on the basis of a bookkeeping certificate listing the actual bonuses charged within the limits of the wage fund.

The investment banks check of course systematically on the granting of bonuses and require immediate correction of any deviations from the rules.

4. Subsequent Bank Control over the Issuing of Funds for the Payment of Wages

Independently of the control related to the actual issuing of funds, the investment banks also carry out subsequent control over the expenditure of these funds. These control activities include verification of the certificate on charged wages, observance of the established rates and output norms, and the utilization of the wage funds for their intended purpose. The combined preliminary and subsequent control should insure the proper charging, accounting, issuing and expenditure of the wage funds.

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The main task in subsequent control is to verify the basic indicator that determines the amount of wages to be allocated on the basis of the monthly certificate. That indicator is the construction program performed in the course of the month in terms of cost estimate prices. The magnitude of this monthly volume of construction depends on the proper calculation of the physical units, the application of the proper unitary rates corresponding to the various types of construction operations and construction elements and the charging of the established overhead outlays.

The monthly volume of work for which wages are issued consists of the volume of construction work listed in acceptance acts (including only the acts accepted by the banks for payment) plus the difference between the remainders of incompleted construction.

In the certificate on charged wages, the bank checks first of all the volume of performed work by comparing the data with periodic audits and the paid work acceptance acts. If the certificate lists work that has not been paid for by the bank or if inspection uncovers an excess in the work volume listed, then the performed work volume and the corresponding wages must be recalculated. Any excess wages that have been paid are then withheld from the next wage payment.

The same periodic audits and accounting data are used to check the data on the output of production and services by auxiliary enterprises. Any discrepancies must be recalculated and any excess payments are then subject to withholding.

In the case of projects that do not keep separate accounts of the output of auxiliary enterprises, the banks calculate the wages on the basis of the performed construction work.

The amount of wages actually charged in the certificate is checked against reports on wage payments and bookkeeping data.

The paid bills of organizations that have supplied the project with labor are also included in the charged wages (as part of the basic and the additional wage).

Wage funds issued by the bank must be used only for that specific purpose. Funds that have not been expended within three days must be returned to the bank, but remain at the disposal of the depositor. The use of wage funds for other purposes, such as travel, economic and other outlays, is a gross infraction of financial discipline.

Depending on the magnitude of the infractions uncovered in the certificate on charged wages and the amount of wage funds used for other purposes, the banks may use financial sanctions and submit the evidence to the public prosecutor for legal steps against the responsible parties.

When projects and contracting organizations are being investigated with regard to the use of wage funds, the banks also verify the proper application of norms and wage rates in the payment of wages to construction workers, installers and other trades of such payments are included

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in the certificate.

Such a check can be carried out only on the basis of primary documents, in this case job instructions. These job instructions are checked (systematically or at random) for proper job descriptions, the proper application of norms and rates, the time of execution of the instructions and the work actually performed.

The struggle waged by the banks for the timely and proper issuing of job instructions and the use of legal output norms and rates, as well as the whole complex of control functions related to the expenditure of wages, are of first-rate importance in strengthening the Socialist principle of wage payments and in keeping within the estimated cost of construction.

The timely and proper issuing of job instructions is also of major importance for the timely payment of wages to the workers. All control operations performed by the banks with regard to wages always involve a check of the schedule of wage payments. Delays in wage payments are not tolerated in our country and reasons for such delays must be carefully investigated by the banks. Any mismanagement, accounting malpractices or absence of wage funds must be reported to the legal organs for appropriate steps against those responsible.

The issuing of wage funds by the banks requires a combination of preliminary and subsequent control that takes into account both the interests of the state in preventing wage overexpenditures and reducing construction costs and the interests of the workers in getting paid the proper wages on time.

Verification of the primary documents for proper use of the approved output norms and wage rates must be combined with a study of the organizational and economic factors that affect the fulfillment of the plan.

A final step in bank control over the expenditure of wages includes an analysis (either on the basis of periodic audits or in an on-the-spot investigation) of the operations of the project or the contracting organization with regard to the organization of labor and the introduction of mechanization and industrialized working methods.

5. Overhead Outlays in Construction

The calculation of the cost of construction items differs from the calculation of the output of industrial enterprises. This is true especially of the system of overhead outlays in construction, both in regard to their make-up and the methods of setting norms.

The cost of each unit of construction or installation work (a cubic meter of brickwork, a cubic meter of concrete, a square meter of flooring and so forth) includes wages, the cost of the construction materials, the cost of the work of the construction machines and the cost of transportation and auxiliary services (steam, water, electric power, and so forth).

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All these outlays are calculated, either in physical terms or in monetary units, on the basis of existing norms for the outlay of labor and materials, the wage rates and the cost estimate rates for construction materials and services.

The number of units of construction work is directly proportional to the outlay of labor, materials, the work of the machines and the services of auxiliary enterprises. These expenses, called direct outlays, are an integral part of the cost of the performed work. But direct outlays do not account for all construction costs.

A normally functioning construction project involves a whole series of additional outlays related to administration, planning, accounting, security, the care of workers and administrative-technical personnel and so forth. These outlays, which are added periodically to the cost of construction in proportion to the direct outlays, are called overhead outlays.

Outlays for the maintenance of the administrative staff and fire-fighting and security guards and municipal outlays are not directly proportional to an increase or a reduction in the monthly or quarterly volume of construction. The distribution of a fixed overhead over varying volumes of construction work therefore either raise or lower the cost of construction.

Overhead differs from direct outlays in one more respect -- it depends greatly on the organization of the construction project. A good organization, economies in outlays, and the elimination of excessive overhead expenses may greatly reduce the cost of construction.

The very nature of overhead expenses often makes them the chief factor in increased construction costs and therefore requires bank control over overhead outlays.

In fighting for a reduction in construction costs, the banks must therefore carry out systematic control over overhead outlays, both in a preliminary fashion at the time funds are issued to the projects and subsequently through an analysis of the audits and investigation of the projects on the spot.

Overhead outlays are not uniformly included in the final cost of construction. For example, overhead in basic construction (the actual construction work) is calculated into the cost of construction as a separate item, overhead related to the purchase of tools, fuel, fodder and other materials and equipment is included in the cost of the materials, the overhead in auxiliary enterprises is included in the cost of production of those enterprises.

Basic overhead in construction and installation work includes: social security deductions, additional wages (in excess of the basic wage), administrative-economic outlays, municipal outlays (the payment share of the enterprises for housing and municipal services and the maintenance of residential and municipal enterprises belonging to construction projects or construction-installation organizations); outlays

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related to the hiring and transfer of workers; amortization of temporary structures (which are excluded from the itemized list of construction and from the construction items within the terms of the third part of the general cost estimate); maintenance of firefighting and security guards; outlays for the protection of workers and safety devices; outlays for rationalization, the setting of labor norms and the testing of materials; outlays for improvement of the construction site; other overhead expenses (travel expenses for highly skilled installers, interest on bank loans and so forth).

Overhead related to the purchase of materials and equipment includes the maintenance of the purchasing, receiving and stock departments.

The staff of the supply office or section for part of the staff of the trust or office and comes under administrative-economic outlays for construction and installation work.

Auxiliary enterprises that keep their own books operate on the basis of the usual industrial production norms and their overhead consists of the usual items in industrial production.

The overhead of enterprises whose activities are on the books of the construction project is figured in the same way as for construction-installation work and includes chiefly additional wages, administrative-economic outlays, and the cost of maintenance of buildings.

The Limiting of Overhead Outlays. In the case of direct outlays, norms are based on the technological construction process and precise norms can be set up per unit of construction-installation work.

The setting of norms for overhead outlays is far more complex since their magnitude depends on the organization of the administrative apparatus, the nature of the work performed, the number and skills of the labor force, the location of the construction site, the organization of supply functions and other factors.

The structure of the direct outlays varies with the types of operations. In the case of construction work, materials and prefabricated construction parts make up more than half of the outlays. On the other hand, in installation work the share of the wages is usually much higher than in construction work.

The norms of overhead outlays have therefore been set in separately on the basis of the amount of direct outlays, the cost of equipment and construction materials, wages and the estimated cost of construction.

The construction overhead norms have been set by special government decisions. The following norms have been set up for various types of operations.

Overhead norms related to direct construction outlays are set as follows (in percent of the estimate cost of production in 1950 prices):

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(a) in actual construction work (except the installation of steel construction) ranging from 15.8 percent (in the Ministry of Forestry USSR, the Ministry of Cinematography USSR and projects under republic jurisdiction) to 20 percent (in the Ministry of Coal Industry USSR).

(b) in the installation of steel construction for all ministries -- 9.4 percent.

(c) in the installation of steel-span construction of railroad and highway bridges -- 11.6 percent.

(d) in mine-construction work for all ministries: 27 percent for above-limit construction and 19 percent for below-limit construction.

Overhead norms related to the basic wage:

(a) in the installation of equipment of all types, except the installation of power-transmission lines and electric substations -- 85 percent.

(b) in the preparatory work of peat bogs of all ministries and agencies -- 67.5 percent.

Overhead norms related to the cost of materials and equipment in 1950 prices:

(a) preparatory storage outlays of all ministries and agencies -- 1.94 percent (of the cost of the construction and engineering materials f.o.b. warehouse);

(b) preparatory storage outlays related to the equipment of all ministries and agencies -- 1.25 percent (of the cost of the equipment);

(c) preparatory storage outlays related to steel construction of all ministries and agencies -- 0.8 percent (of the cost of the steel construction).

Overhead norms related to the estimated cost of construction apply to overhead outlays for the maintenance of the director's office of the future enterprise, including the technical inspection of contract work; they range from 0.38 percent (if the estimated cost of construction exceeds 500 million rubles) to 1.09 percent (if the estimated cost of construction is less than 5 million rubles).

The overhead norms also include the following planned accumulations expressed in percent of the direct outlays: in regular construction and mine-construction work -- 2.7 percent; in the installation of steel construction and steel bridge spans -- 1 percent; in the installation of equipment 2.2 percent.

These norms constitute the maximums. The ministries and agencies have the right to adjust their overhead outlays in their financial plans within the norms listed above. (In the case of projects situ-

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ated in remote areas, the ministries may (with the agreement of the Ministry of Finance USSR) set up special overhead norms).

Control over Overhead Outlays. Overhead includes a whole series of differing outlays. Consequently bank control over overhead outlays assumes a number of forms, all of which however consist basically of the following steps: preliminary control over the established norms for overhead and the salaries of the administrative-economic personnel; control over the established norm at the time of payment for completed construction work; control over the expenditure of the limit of administrative-economic outlays; subsequent control over the over-all overhead norm and the norms for different types of outlays.

Preliminary control over established norms is carried out in the course of the verification of the construction cost estimate. It involves a careful check of the correct calculation of direct outlays and of the total overhead corresponding to the established norms.

When the banks pay bills for completed construction work, they verify the overhead outlays that are listed as a separate item in the appended work acceptance acts.

When the banks issue funds from the accounts of projects and contracting organizations, they can make a check at random on a number of overhead expenses, including social security deductions, cash outlays or remittances related to the hiring and transfer of workers, the payment of vacation pay to workers, the travel expenses of highly skilled installation workers and so forth, using the payment instructions and checks submitted by the projects and contracting organizations.

The basic method used by the bank for checking actual outlays against the established norms is subsequent control by means of periodic and annual audits and on-the-spot inspection of the project's accounts and statistical data. This control involves two phases: (1) a check of the planned and cost estimate appropriations for overhead against the established norms and (2) a check of actual outlays against the established norms.

As we have seen, the overhead norms vary for individual ministries and agencies and may in turn be differentiated for individual projects. The first step in the check therefore is to ascertain to what extent the norms adopted for a given project differ from the ministry norms both for the project as a whole and for individual operations.

Construction-installation organizations often work for projects of different ministries and must be guided by the cost estimates approved for each of these projects. The overhead norms of such contracting organizations would be weighted accordingly, as shown in the following example.

A construction office has contracts with three projects of different ministries: the first with a work program of one million rubles and an overhead norm of 18 percent, the second with a program of 2 million rubles and an overhead norm of 17 percent and the third with a

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program of 4 million rubles and an overhead norm of 16 percent.

If we now recalculate the overhead norms, which are based on direct outlays, in terms of the work program (by dividing the norm by 100 plus the norm, i.e. in the first case 18:118, and so forth), we get 15.2 percent or 152,000 rubles for the first project, 14.5 percent or 290,000 rubles for the second, and 13.8 percent or 552,000 rubles for the third, or a total overhead of 994,000 rubles against a total working program of 7 million rubles, which yields a weighted overhead norm of 14.2 percent.

The setting of overhead norms also varies with types of operations, such as actual construction work, the installation of steel construction, mine construction work and so forth. Consequently projects with identical volumes of work but different work structures may have different overhead norms.

The final stage in bank control of overhead norms is a check of the actual outlays for individual expenditure categories. The check is carried out on the basis of periodic and annual audits, chiefly on-the-spot analysis of books and is designed to establish the correctness of the calculations of overhead norms, the proper listing of actual outlays under the various types of overhead, the legitimacy of these outlays, and the factors that affect overexpenditures and economies in the overhead.

6. Control of Administrative-Economic Outlays

The largest overhead item (amounting to about one-third of the total overhead) are administrative-economic outlays, i.e. outlays for the maintenance of the administrative staff of the project.

Like all other overhead, administrative outlays are broken down into those applying to basic construction and those related to auxiliary activities. The first category is limited, just like the total overhead, by central authorities and is included in the cost of the construction and installation work. The second type of administrative overhead is included in the value of the output of auxiliary enterprises, services rendered by transportation and auxiliary enterprises, the value of purchased materials and equipment (purchase and storage outlays) or is listed as a separate type of overhead (as in the case of firefighting and security guards).

The norm of administrative outlays for actual construction work is based on the estimated cost in 1950 prices and ranges from 5.2 to 6.2 percent of the direct outlays; for the installation of steel construction -- 3.9 percent; for the installation of railroad and highway bridge spans -- 5.7 percent; for underground mine construction work -- 10 percent for above-limit construction and 5 percent for below-limit construction; for the installation of equipment up to 29 percent of the basic wages; and for peat bog preparation work -- 22.5 percent of the basic wages.

The administrative outlays of auxiliary activities are not limited

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in this fashion. There the superior organizations determine the total amount of administrative outlays within the overhead limits, either on the basis of the cost estimate or of a special calculation.

The administrative outlays of basic construction include: the salaries of the engineering and technical personnel, employes and junior assistants, maintenance of the administrativepremises, travel, postal and telegraph and similar outlays.

The administrative outlays of auxiliary activities include: the salaries of the administrative personnel (engineers and technicians, employes, junior assistants) of the auxiliary enterprises, transportation, residential-municipal and purchase-storage services, the maintenance of the office of the director of the enterprise under construction and the firefighting and security guards.

All these outlays are independent of the course of fulfillment of the capital investment and construction-installation plans by quarters or by months and are affected by the work programs only over longer periods of time.

The administrative outlays in construction are under the constant supervision of the investment banks and occupy a key place in the whole matter of control over construction cost reduction.

The labor plans that are approved by the superior agencies for each construction project and each contracting organization include a limit (or maximum) for the administrative outlays in basic construction and in auxiliary activities. These limits are given for a whole year with a breakdown by quarters.

In addition the superior agency approves a cost estimate of administrative outlays by expenditure items.

These cost estimates are then registered in the local organs of the Ministry of Finance USSR on the basis of the approved personnel lists.

As part of their control functions, the investment banks check systematically all periodic and annual audits with regard to outlays for the salaries of the administrative personnel and the individual expenditure items in the administrative overhead.

The whole series of documents at the disposal of the bank (limits, cost estimates, registration files, wage payment certificates, reporting forms) and the data submitted to the bank on the structure of the administrative apparatus and its functions in the construction project enable the bank to analyze the operations of the administrative staff and find room for further overhead reductions.

Similarly to the total overhead in basic construction, administrative overhead is limited on the basis of ministerial jurisdiction, types of operations, territorial location and the specific features of individual projects.

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The annual administrative overhead limits are broken down by quarters in accordance with the annual and the quarterly work plans.

The investment banks are expected to verify the calculation of the administrative overhead limit, taking into account the ministerial jurisdiction of the project, the structure of operations planned for the current year and the norms established for the given project.

In verifying the limit for auxiliary activities, the banks use data from previous years and the operating experience of model projects.

The construction ministries make use of standardized personnel lists approved by the government, according to which the structure of the administrative staff, the number of administrative posts and the salary rates are assigned to individual trusts and construction offices.

These standardized personnel lists also provide for the structure of auxiliary enterprises and provide a basis for setting the administrative overhead limits for these activities.

Salaries, which make up the largest part of the administrative overhead, range from 70 to 75 percent for trusts and from 75 to 85 percent for construction offices and sectors. The share of the salaries in the over-all administrative overhead is also subject to verification by the investment banks. If the bank finds that the administrative overhead exceeds the norm, the bank must ask the project to reduce its overhead and at any rate issues funds only within the established overhead limit.

The banks check the expenditure of funds on the basis of reports submitted by the construction projects and contracting organizations. If they find that the quarterly limit has been exceeded, the excess is withheld by the banks from the limit of the following quarter (including the first quarter of the following year).

In the course of controlling the overhead outlays, special attention must be devoted to the salaries of the administrative personnel.

The banks issue funds for the payment of salaries only if the given economic organization (construction project, contractor or geological prospecting unit) is supplied with a labor plan and certificates showing that the personnel and the salary fund have been registered with the local financial organs both for basic construction and auxiliary activities.

The labor plan breaks the quarterly salary funds down by months. If the monthly salaries shown in the labor plans are less than the salaries registered with the financial organs, then funds are issued by the banks within the limits set by the labor plans.

For the first half of the month, funds for salaries are issued by the bank within the limits of the quarterly salary fund. But in

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the final monthly accounting, funds are issued only upon presentation of the salary payment certificate (shown below).

Name of Organization
Financing Account No. 4500
To the Moscow City Office / Branch
of Prombank

SALARY PAYMENT CERTIFICATE
for October 1950

1	For Construction and Installation Work		For Auxiliary Activities	
	Number of Employes at End of Month	Monthly Payroll in Rubles	Number of Employes at End of Month	Monthly Payroll in Rubles
	2	3	4	5
1. Planned by the Financial Organ or the Superior Agency	36	32,500	18	16,200
2. Vacancies in the Planned Personnel Apparatus	2	1,800	--	--
3. Salaries Due for the Actual Administrative Personnel	34	30,700	18	16,200
4. Vacation Salaries Due from the Funds Allocated to the Following Months	2	1,500	1	950
5. Previous Vacation Salaries Paid from the Fund Allocated to the Current Month	--	--	--	--
6. Tax and loan deductions	--	3,800	--	1,600
7. Previously Received from the Salary Fund of the Current Month	--	15,000	--	8,000
8. Salaries Due on the Final Monthly Account	--	13,400	--	7,550

Chief of Organization (signature)

Chief Bookkeeper (signature)

2 November 1950

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Salary funds due on the final monthly accounting may be paid only for the personnel actually present within the limits of the salary fund registered with the local financial organs for basic construction and auxiliary activities without regard for economies or overexpenditures in either operational category.

The certificate lists the number of employes assigned to basic construction and auxiliary activities and registered with the financial organ. In the case where the salary fund and the number of employes in the labor plan is lower than the registered figures, the certificate must list the data according to the labor plan.

The banks verify the number of employes and the salary fund and in case of discrepancies request that the proper corrections be made. The amount listed as an advance from the monthly salary fund is also verified by the banks against their own books.

The salary funds in the final monthly accounting are calculated as follows. The salaries due to the actual personnel present (after all corrections have been made) is increased by the vacation salaries due from the funds of the following months and is reduced by vacation salaries previously paid from the fund of the current month. The advance already received for the current month and any deductions for taxes and loans are then deducted and the rest is the amount due on the final salary account.

Salary economies achieved in preceding months cannot be applied to subsequent months.

Funds for the salaries of outside employes are issued by the banks separately (on the basis of the wage payment certificate) within the limits of the non-payroll fund registered with the local financial organs and only for work that cannot be handled by the employes of the given organization or by other state or cooperative contractors.

The investment banks are expected to maintain a constant check over the personnel and wage data listed in the salary payment certificates. This check is carried out on the basis of reports submitted by the organizations and by on-the-spot investigations of the books of the organizations.

If the banks uncover discrepancies in the salaries listed in the payment certificate and in other sources, the banks list the discrepancy in their salary payment files for later settlement. If the banks find that the number of employes exceeds the figures listed in the labor plan or registered with the appropriate authorities, the banks are expected to ask the organization to reduce its personnel to the proper size. Independently of these checks, the banks constantly keep an eye on the structure, the functions and the work load of the administrative construction staffs with a view to eliminating any excess posts and applying the best experience of some organizations to others, with the standardized personnel lists approved by the government serving as the model.

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CHAPTER XII

BANK CONTROL OF THE PRICES OF MATERIALS AND EQUIPMENT

1. The Importance of Bank Control Over the Observances of Prices

Capital investments in the national economy involve a tremendous amount of materials, such as nonmetallic minerals, construction materials, prefabricated parts, equipment, implements, tools, fuel and so forth, which must be transported from the place of production to the place of storage and must be sorted, assembled and transported to the work site. All these materials, whose cost is rising with the increase in capital investments, are paid for through the investment banks. One of the key tasks of these banks is to prevent any increase in the prices of materials in the course of their production and transportation to the construction site.

A number of economic organizations operate on the construction site. They include the client (the director's office of the project under construction or the director of an existing enterprise), the general construction contractor and his specialized subcontractors, special supply organizations and so forth. All these organizations and enterprises manage the capital allotted to them, make their own purchases, produce and process materials in their own auxiliary enterprises, and supply one another on a contract basis. The purchasing functions of each economic organization involve additional outlays related to the maintenance of the staff, storage, sales, transportation and so forth.

As a result of the transportation of materials from the place of production to the place of consumption (the construction project), the price at the project (at the project warehouse) consists of the following elements: the industrial sales price; the cost of packing and wrapping (except when that is already included in the sales price); transportation to the loading point (if the price is f.o.b. plant, f.o.b. quarry or if the manufacturer has its own rail siding); loading; the railroad or waterway freight rate; unloading; the charge of the distributing organization; the truck or cart carriage rate.

The estimated cost of construction materials, equipment, prefabricated parts and other materials intended for the construction project is figured on the basis of the industrial sales prices and the most rational geographical distribution of suppliers according to the state supply plan.

In checking all bills presented for the payment of materials and equipment and making payment only on the basis of legal prices, the banks are expected to prevent any infractions of Soviet price policy on the part of individual enterprises and organizations.

Control of the cost of transportation and of loading and unloading operations involves a constant struggle against irrational shipments and excessive transshipments that not only raise the price but also affect the quality of the product.

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Bank control of bills presented for materials and equipment thus improves the transactions among suppliers, consumers and distributors and inculcates on the employes in the construction project a spirit of thrift with regard to state funds.

2. The Procedure of Setting Prices for Construction Materials and Equipment.

Sales prices of basic industrial products under union and republic jurisdiction are approved by the Council of Ministers USSR and are listed in the price books that furnish the basis for all transactions relating to the purchase of goods.

Other products and union and republic products manufactured in small amounts are priced by the corresponding union ministries or the Councils of Ministers of union republics and autonomous republics.

Sales prices of local, state and cooperative industrial products not covered by the price books approved by the Council of Ministers USSR are approved by the Councils of Ministers of the union republics.

Sales prices of brick, lime, roofing board, roofing tile, paper roofing materials, asbestos-cement and ceramic materials, prefabricated houses, plumbing materials, and nonmetallic minerals produced by local industry, producer cooperatives and veteran cooperatives are approved by the Councils of Ministers of union republics having no oblast division and by the Executive Committees of oblast and kray Soviets of working people's deputies on the basis of planned production costs. However these prices may not exceed by more than 20 percent the corresponding prices set for state industry.

Auxiliary enterprises of construction projects and contracting organizations produce a considerable amount of construction materials and prefabricated parts for the projects' own use. The prices of these products are set by price books approved by the Council of Ministers USSR. Only when the given product is not covered by the existing price books can the price be set by the Minister having jurisdiction over the project.

In addition to established mass production items, the enterprises under union, republic and local jurisdiction also develop and produce new products and machines. If these new items were previously produced (or are being produced) elsewhere in our industry, they are sold at the established prices. Prices must be approved in the usual manner for items not covered by the price books.

Items that have been newly developed and are to go into mass production are priced by agreement between the supplier ministry and the client ministry on the basis of planned production costs. These prices are in effect for 6 months after the date of delivery of the first item or the first lot. After that period products may be paid for only at prices approved by the Council of Ministers USSR. If the item is not one of the items for which prices are set by the Council of Ministers, the price set by mutual agreement remains in force.

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A similar procedure applies to the setting of prices of items that are slated for production in small quantities or in single units.

Enterprises sometimes produce individual items by special order (experimental samples of items, separate parts for equipment and machines, semi-finished goods, intermediate items, and so forth). If there are no existing prices for such products and no existing prices can be applied by analogy (because of discrepancies in the over-all weight or volume), then prices may be set by the Minister (of the supplier ministry) or with his approval by the chief of the main administration or the director of the plant by a contract with the client. The same procedure applies to individual items produced by enterprises for their own capital construction.

Railroad, waterway and air freight rates are subject to approval by the Council of Ministers USSR, truck freight rates by the Councils of Ministers of union republics and cart freight rates by the Councils of Ministers of autonomous republics and the Executive Committees of kray and oblast Soviets of working people's deputies.

The cost of additional services rendered in connection with the shipment of products (concentration of gravel, delivery from the quarry to the regular railroad station or river landing, fastening in railroad cars or ships, maintenance of an industrial rail spur, and so forth) is paid on the basis of calculations approved by the main administration or the ministry.

The prices approved for industrial products are listed in price books published by the ministries. The price books list the designation and brand, the precise characteristics and the f.o.b. and sales prices. The price books also list all sales conditions relating to assortment and quality -- surcharges, reductions and other calculations that enter into transactions (payment and refund for packing and additional wrapping, rigging, fastenings and so forth).

The approved freight rates of the various union and republic ministries are issued in the form of handbooks.

Many organizations compile their own price manuals using data from a number of price books to simplify their work when making cost estimates and accounting for materials available at the project sites. These price manuals sometimes list average prices for individual types of products, thus further simplifying calculations, even within large enterprises. Some price manuals further contain the average cost of additional outlays related to the shipment of materials, i.e. the price f.o.b. project warehouse.

3. The Rates of Distributing and Supply Organizations

In a number of industrial ministries, a large part of the output is sold through a system of specialized distributing organizations.

These distributors sell the merchandise either by shipping it directly from the producing plant to the consumer (transit operations)

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or by shipping it from its own warehouses where the goods have been temporarily shipped from the producing plant (warehouse operations).

For these commercial services the distributing organizations charge the consumers a fee, called "natsenka" [surcharge], a percentage rate based on the cost of the shipped merchandise at the sales price.

Except for these surcharges, the distributors may charge only for the cost of the packing in cases where that cost is not included in the sales price and for the railway and waterway freight costs from the point of origin to the point of destination. Naturally, in the case of goods for which the sales price is f.o.b. point of destination, the distributors have no right to charge the consumer for the transportation cost from the point of origin.

The realization of centrally allocated assets and independent decentralized purchases of ministries are handled through a system of main supply administrations and subordinated supply organizations.

The supply organizations of the main supply administrations of the ministries and central agencies, like the distributing organizations, handle transit and warehouse operations and charge the so-called surcharge fees to cover their administrative outlays.

Like the distributing organizations, moreover, the main supply administrations and their organs have the right to charge the consumers for the cost of transportation from the point of origin -- the site of the warehouse of the supply organization -- to the point of destination whenever the sales price is f.o.b. point of origin.

If the merchandise on its way to the consumer is handled by two or more supply organizations, only the last organization making the actual delivery has the right to levy the warehouse surcharge, which it must then use to compensate the other supply organizations.

When goods are sold at fixed retail prices, the supply organizations instead of levying surcharges must cover their costs through trade discounts.

A maximum surcharge of 0.4 percent of the sales price applies to all transit operations of the supply organizations of all ministries and agencies.

For warehouse operations there are two surcharges, both maximum and average surcharges, which the ministries may in turn vary according to the supply organizations under their jurisdiction and according to the types of materials and equipment handled.

Supply organizations for which maximum surcharges have been set have no right to levy warehouse charges for materials and equipment handled in transit or received from the warehouses of distributing organizations (coal, lumber, cement, trucks and trailers, tractors and heavy equipment).

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The main supply administrations and their local organs handle mainly transit operations; warehouse operations are not supposed to exceed 20-25 percent of their total turnover.

Construction-installation organizations (trusts, construction administrations, all-union offices and so forth) and large construction projects organize their own supply organs, which keep their own books and have a clearing account in the bank. These supply organs realize their assets and make decentralized purchases within the limits of their organization. They do not enter into the system of the main supply administrations of ministries and have no right to levy the surcharges approved for the main administrations and their organs.

The surcharges that may be levied by the special supply organs of construction projects and construction-installation organizations are not regulated by generally applicable norms. However, these surcharges must keep within the norms set for the purchase and warehouse outlays in construction, which are 1.94 percent of the cost of construction and plumbing materials, 1.25 percent of the cost of equipment and 0.8 percent of the cost of steel construction in 1950 prices.

Control of the proper levying of surcharges and the handling of goods in the distribution and supply system is a major segment of the functions of the investment banks.

4. Checking the Prices of Materials and Equipment

For checking the prices of materials and equipment, the investment banks must have at their disposal specially trained workers and a special unit -- the price-control bureau.

The organization of the price-control bureau at bank branches involves two conditions that determine the successful performance of price control over materials and equipment.

The first condition is the acquisition of all required price books, price manuals and other reference materials on the approval of individual prices and on surcharges approved for distribution and supply organizations, as well as freight rate handbooks. These acquisitions must be insured on a systematic day-to-day basis so that all new price books and newly approved price data promptly arrive at the bureau.

A filing system designed to facilitate the use of the reference materials lists data on the approved prices of materials and equipment and makes reference to the price source books.

The second condition is the proper organization of the circulation of documents within the bank branch. Bills for materials and equipment that are submitted for payment, bills of local suppliers that require an on-the-spot check and bills accompanying payment instructions should all be sent to the price-control bureau and be cleared within the established time limits for refusal to accept, control and payment.

If the bank is supposed to check the sales prices and the other

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elements of the price f.o.b. project site, the document subject to control must contain the necessary data. That requirement is met by the form of the invoice set up by the Ministry of Finance USSR, which contains all the payment data required by the buyer and the controlling bank.

The basic data used in price-control work include:

Detailed designation of the supplier; this makes it possible to determine the category of the supplier and preferential terms that have been approved for the supplier (manufacturing enterprise, distribution or supply organization, organization reselling surplus stocks and so forth).

Point of origin and point of destination; this makes it possible to establish the transportation distance, the proper freight rate and so forth).

Reference to the shipping document, mentioning the method of transportation.

Full designation of the shipped merchandise, with exact technical characteristics based on the price book, brand and grade (these are the most important data for checking againstthe price book).

Unit of measurement of the merchandise, based on the price book.

Quantity of merchandise shipped, in the appropriate units.

Sales price per unit according to the price book.

Total cost of the merchandise, the product of the price per unit and the quantity.

Reference to the price book or decree on which the invoice price is based.

Cost of wrapping and packing, unless this is included in the sales price.

Cost of loading and unloading.

Freight costs.

Distance of truck or cart transportation.

Surcharge of the supply and distribution organizations.

Total cost of the shipped merchandise.

Proper listing of all the requisite data makes it possible for the bank to carry out its functions.

Control over the proper documentation of shipped merchandise is

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one of the key tasks of the price-control bureaus. The more complete the invoices, the rarer are payment refusals and requests for explanation and consequently the more rapid is the turnover of funds both at the supplier and the buyer.

The cost of construction depends to a large degree on the cost of the basic construction materials, equipment and prefabricated parts, of which the prices are subject to control by the bank.

The basic method of price control consists of preliminary verification (before payment) of the bills submitted to the bank in the city of the customer or the city of the supplier.

In the first case, preliminary control extends to bills that are submitted to the bank branch for payment from the accounts of the financed projects and construction organizations (either by the supplier or with the customer's payment instructions). Verified bills are then paid in the established fashion from the customer's account.

In the second case, the suppliers submit their bills for a preliminary check to the bank in their city; the approved bills are then sent for payment to the bank in the customer's city.

Price control by the bank in the supplier's city has the advantage of permitting any questions regarding prices and other invoice data to be settled on the spot within time consuming correspondence that tends to hold up transactions and freezes funds. At the same time the bank branches can exert influence on suppliers that submit faulty invoices and thus prevent price infractions. However, the price-control method excludes the customer, who may conceivably raise objections regarding the invoice that require additional correspondence in any case.

In the course of their preliminary control, the banks check the sales prices of every one of the basic materials that appear on a special list supplied to them. Other items are checked at random. The check is based either on price books and other price data or on a notation in the invoice regarding previous price control.

The surcharges of distribution and supply organizations are checked in all invoices both from the point of view of legitimacy and amount.

Freight rates on railroads and waterways are checked on a random basis for large amounts or long hauls.

All other price elements are carefully and fully investigated, since price increases in the course of shipping are likely to occur precisely in various supplementary charges (the maintenance of an industrial rail spur, loading and unloading, additional beneficiation operations, truck and cart haulage, outlays related to purchases, resales and so forth).

According to the rules applying to the financing of construction, the banks are not permitted to make payment on invoices that included prices exceeding the approved prices.

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In order to speed the turnover rate of funds, the banks are required whenever practicable to make partial payment of invoices, excluding any increases either in the sales price itself or in either elements of the delivery price.

The banks keep a record of all paid invoices (both checked and unchecked) and of all refusals to pay because of price increases and other infractions.

These data and the systematic control of all invoices presented for payment make it possible for the banks to uncover any infractions in established prices, surcharges and fees, in the handling of distribution and supply to the retail trade, illegal sale of materials and equipment on the side, irrational and excessively long hauls, the submission of invoices in the absence of shipments, the sale of incomplete products and other shortcomings in the supply and distribution system.

A large number of auxiliary enterprises of construction organizations deal with their customers (construction offices and sectors) directly through mutual clearing bureaus without presenting their invoices to the bank. This makes it necessary for price-control bureaus of the branch banks to make on-the-spot checks of the prices listed in invoices that are cleared through the mutual clearing bureaus.

Auxiliary enterprises are required to sell their output at generally established prices and, in the absence of such prices, at prices approved in the usual manner adopted for all industrial enterprises. Bank control of the prices of products manufactured by auxiliary enterprises is therefore of extremely great importance since these enterprises account today for a large part of prefabricated construction sections and parts.

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CHAPTER XIII

FINANCING OF GEOLOGICAL PROSPECTING OPERATIONS

Geological prospecting operations are of key importance for the development of the national economy of the USSR. All geological prospecting for minerals is under the direction of the Ministry of Geology USSR, which through a wideflung network of subordinated organizations handles a large part of the geological prospecting of union-wide significance. In addition, geological work is also handled by the Ministries of the Coal, Petroleum and Metallurgical Industries, the Ministry of the Construction Materials Industry and so forth.

Geological work includes, in addition to prospecting, exploration, surveying and engineering and hydraulic work, also related geodesic, cartographic, publishing and monograph-writing work. Geological work also includes the assaying of new mineral finds and investigation of archive materials.

Long-range geological work designed to uncover unexplored mineral reserves outside of operating enterprises is financed directly from the state budget. Geological work carried on within existing enterprises or on the territory of enterprises under construction with a view to defining the extent and the reserves of the given deposit are financed out of capital investments.

Geological exploration carried on as part of the running operations of existing mining enterprises is financed out of the funds of the basic operations of the enterprises.

The Council of Ministers USSR approves as part of the annual national economic plan a plan for the execution of geological work by individual ministries (with a quarterly breakdown). That plan contains indicators of the planned volume of geological exploration both in money terms and in physical units. Annual itemized lists approved by the government show the volume of work and the rise in reserves to be uncovered for each mineral resource subject to exploration.

The more detailed breakdown of the geological plan for each prospecting organization lists the basic indicators for each geological work item: the category of minerals and the nature of the work; the name of the deposit, prospecting party, group and expedition; location of the deposit, by republic, kray or oblast; specific purpose, time limit and expected results of the exploration work; approximate cost of the work. These plan indicators are approved by the chiefs of the main administrations of the appropriate ministries for the geological administrations, trusts, offices and so forth under their jurisdiction.

Prombank handles the financing of geological work on the basis of the usual financing prerequisites; these do, however, vary in connection with the specific nature of geological exploration work. The prerequisites include: an annual work plan for the geological exploration organization, a financing limit, an annual itemized list, a certificate on the existence of designs and cost estimates, a certificate on the

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registration of the work (to be submitted by the industrial ministries).

The annual plan of the geological exploration organization is broken down by types of work, minerals and so forth. The plan indicators are set by the main administrations of the corresponding ministries on the basis of approved plan assignments. After a proper check, the head office of Prombank forwards the geological work plans (Form 7-a) to the branches that are to handle the financing of the geological exploration organization.

These plans differ somewhat from the usual form of the capital work plans (Form 7). In addition to the total amount of the annual work program, they also contain plan indicators (in thousands of rubles) for each major site and type of geological work (with a breakdown by geological administrations, trusts and offices).

The financing limit (in its usual form) is sent to the Prombank branch by its head office.

The annual itemized list of geological work is submitted by the geological exploration organization that is to be financed.

These itemized lists must have the approval, as appropriate, of the chiefs of geological administrations, the chiefs of geological exploration trusts, or the directors of enterprises that undertake the exploration work.

The itemized list contains a complete catalogue of all work to be performed. It includes: the names of the individual geological exploration parties, the names of the deposits to be explored by each party and the nature of the work (detailed exploration, prospecting exploration, study of the geological structure at depth, and so forth). The work items and outlays for each deposit are usually listed as follows: planning, field work (by types); temporary structures (by items); excavation work; travel to the work site and back; bonuses and so forth.

One distinguishing characteristic of the itemized list of geological work is the listing of the estimated cost per unit of field work operation (a meter of manual or mechanical drilling, a square kilometer of geological survey, and so forth) and of the cost of each temporary structure.

In addition the itemized list contains data on the total estimated cost, the work fulfilled prior to the start of the year, and the planned amount and cost of individual operations and outlays. Such an arrangement of the itemized list makes it possible for the bank to use the data as a check of the proper payment of completed geological work, both with regard to the cost per unit and the total cost of individual operations and outlays.

A completed form of the itemized list of geological work by items and outlays is shown below.

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Form 1-A

Ministry of Geology
Main Western Geological Administration
Geological Administration.....

Approved
Chief .....
Geological Administration
27 January 1950

ITEMIZED LIST OF GEOLOGICAL WORK BY INDIVIDUAL ITEMS AND OUTLAYS FOR 1950

1. Total estimated cost 14,241,500 rubles

2. 1950 work program 8,236,000 rubles

Name of Items (Deposits, parties and types of work)	Total Estimated Cost (in thousands of rubles)	Work Completed Prior to Start of Year (in thousands of rubles	Annual Plan			
			Unit	Quantity	Unit Cost (in rubles)	Total Amount (in thousands of rubles)
I. Ferrous Metals						
1 October Party						
Total for the party	1,133.0	--	--	--	--	1,121.1
including:						
Planning						
(a) Compilation	4.1	--	percent	100	41.04	4.1
(b) Drafting	3.1	--	percent	100	30.72	3.1
Core boring	459.4	--	meter	3,000	153.11	459.4
Preparation and setting up of bench marks	3.3	--	piece	75	43.77	3.3
Erection of derricks	50.4	--	derrick	9	5,598.80	50.4
Moving of derricks	179.7	--	derrick	66	2,722.91	179.7
Digging of ditches	14.4	--	cubic meter	500	28.73	14.4
Digging of trenches up to 10 meters deep	25.1	--	meter	210	118.78	25.1
Digging of trenches more than 10 meters deep	18.8	--	meter	157.5	119.30	18.8

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Testing	21.5	--	test	200	107.63	21.5
Organization	12.5	--	percent	100	124.80	12.5
Liquidation	11.6	--	percent	100	116.26	11.6
Travel to work site	114.7	--	percent	100	1,147.00	114.7
Travel from work site	67.0	--	percent	100	670.15	67.0
Office work	11.6	--	indices	--	--	--
Chemical analyses	23.0	--	indices	99	10.00	23.0
Temporary structures	47.0	--	cubic meter	504	93.31	47.0
Bonuses	35.8	--	percent	99	357.93	35.5
Premiums for Length of Service	30.0	--	percent	100	300.44	30.0
Total for ferrous metals	1,133.0					1,121.1
II. Fuel Total	14,241.5	3,472.4				8,236.0

Chief of Planning Department
.....Geological Administration (signature)

The certificate of the existence of designs and cost estimates for the geological work at the construction project is submitted by the geological organization. The designs and cost estimates for geological exploration work are approved in the manner prescribed for the various ministries. In most ministries, in particular the Ministry of Geology USSR, designs and cost estimates for geological work items costing less than one million rubles are approved by the chiefs of the geological exploration organizations (the chiefs of geological administrations, the heads of trusts and so forth), while in the case of items costing more than one million rubles approval must come from the chiefs of the main administrations of the ministries. For some types of work (for example, rotary drilling by organizations of the Ministry of Geology USSR), the designs and cost estimates must be approved by the chiefs of the main administrations of the ministries irrespective of cost.

The certificate on the registration of the geological exploration work must be submitted when the work is to be done by organizations of industrial ministries. The work is registered by the geological administrations of the Ministry of Geology corresponding to the location of the work site. The certificate lists the name of the geological exploration organization, the name of the deposit and the total volume of work.

Following the usual procedure, the Prombank offices check all the

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financing prerequisites furnished by the geological exploration administrations. The banks must establish in particular the legitimacy of approval of the itemized lists, their agreement with the data of the annual work plans and the plan assignments, and the supply of approved designs and cost estimates for all the work items listed in the itemized list. Following the usual procedure, the banks verify the certificate on the existence of a designs and estimates dossier and spot-check the quality of the cost estimates. Cost estimates for most of the geological exploration work are based on existing cost estimate norm handbooks of the Ministry of Geology USSR (with the use of the proper coefficients); overhead is calculated into the cost estimates within the established legal limits.

The bank offices submit the annual itemized lists to a detailed analysis and require the elimination of any outlays that cannot be financed from appropriations allocated to geological work. Such outlays include: work related to the construction of equipment and the testing thereof; outlays for the compilation of handbooks and instructions; the cost of maintenance of museums, the replenishing of technical libraries, the execution of time-study operations and related standardization operations; and so forth, when they are not related to specific geological work items. Monographs and other publications listed in the itemized list must include the titles of the papers.

Like other organizations, geological organizations are supplied with their own working capital to pay for the normal remainders of assets in circulation. In addition, organizations subordinated to the Ministry of Geology USSR, the Ministry of Construction Materials USSR and the Ministry of the Petroleum Industry USSR receive in the course of the year advances amounting to 10-12 percent of the annual work program to cover their seasonal needs. These advances are treated in the financing limits as immobilization of internal resources and are paid out as the need for funds arises in the course of the first semester; they must be paid back, however, not later than 1 December (in the Ministry of the Petroleum Industry not later than 1 November).

Organizational outlays and expenses for travel to the work site (productive personnel and freight) are paid by the bank up to 50 percent of the corresponding preliminary estimates that form part of the approved cost estimate, provided a certificate on the departure of the party (expedition, group) for the work site is submitted to the bank; the balance is paid by the bank upon presentation of an act confirming the completion of the organizational period and the start of field work.

The bank pays for fulfilled geological work on the basis of monthly bills accompanied by acts listing the amount of work fulfilled; the acts list (in physical units) the actual volume fulfilled in various types of geological operations, including the following indicators: work fulfilled since the start of the year, with a breakdown of the work fulfilled prior to the current month and during the current month; the acts also list the planned volume of work for each operation. The fulfilled geological work is valued in the bills or in the accompanying reports in terms of the unitary rates shown in the itemized list. The cost of the work fulfilled during the first and the second ten-day

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periods are paid, as usual in construction, on the basis of intermediate bills without the requirement of the acts of work fulfilled.

Outlays for the erection of temporary buildings and structures are paid for items costing less than 75,000 rubles on the basis of acts confirming the completion of construction, and for items costing more than 75,000 rubles on the basis of acts of acceptance of completed construction elements.

Liquidation outlays and expenses for return transportation are paid in the amount of the preliminary cost estimate after the party (expedition, group) has actually been liquidated, which must be confirmed by an order of the geological exploration organization.

Office, report-writing, cartographic and other work that cannot be measured in physical units is paid for on the basis of readiness; in the case of office and report work, 10 percent is withheld by the bank from each bill until receipt of a certificate confirming submission of a report on the fulfilled geological work to the State Geological Archives.

When paying for fulfilled geological work, the banks verify the justification of these bills and their agreement with the data in the annual itemized lists. In the course of an on-the-spot inspection, the banks spot-check the amount of geological work completed. This inspection is organized, executed and reported in the same manner as inspection of construction-installation work.

Geological work is financed by the Prombank offices through the financing account opened to the corresponding titleholders of the itemized lists -- geological administrations, trusts and so forth. These accounts are then used to pay for the cost of completed geological work, advances in the course of the year, and so forth. In addition to these financing accounts the geological organizations also open clearing accounts for the payment of outlays directly related to the execution of the geological work (wages, the purchase of materials, transportation needs and so forth). When the geological work is handled on the basis of a contract concluded between the titleholder of the itemized list and an outside organization, the completed work is also paid for out of the financing account.

Capital investments related to the work of the geological exploration organizations (the construction of permanent buildings and structures, the acquisition of equipment and means of transportation, and so forth) are financed in the usual manner from separate capital investment financing accounts opened for that purpose.

The investment banks that handle the clearing accounts of geological exploration organizations effect in addition to the preliminary and subsequent control of the proper documentation of completed work and the justification of the billed items a check over the expenditure of the funds in the clearing accounts of the geological agencies. Both in method and purpose, the check is similar to the bank control of the clearing accounts of contracting organizations. The banks check the prices of materials, issue funds for the payment of wages within the limits of the

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approved labor plans and the salaries of the administrative personnel within the limits of the number of employes and the salary fund registered with the local financial organ.

By analyzing the periodic audits and making their own investigations, the banks carry out systematic control of the financial and economic operations of the geological exploration organizations, lend assistance in improving their economic accountability, speeding the turnover rate of funds and so forth. One major aspect of this bank control is fulfillment by the ministries, agencies and their subordinated geological exploration organizations of the government decision regarding the reduction as of 1 July 1950 (by 7 percent for each ministry and agency) of the estimated cost of geological exploration work effected at the expense of the state budget and funds allocated to the financing of capital investments.

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CHAPTER XIV

FINANCING CAPITAL REPAIRS

1. The Importance of Capital Repairs

The fixed capital of enterprises (buildings, machinery) is gradually worn out in the process of production by transferring its value to the finished product.

The time limits and the degree of wear of individual elements of the fixed capital are not uniform, thus accounting for the varying character and time limits of their renewal. The individual construction elements of buildings and installations, for example, do not all wear out at once. In order to keep the buildings and installations functioning normally, the worn construction parts must be replaced in time. The same applies to equipment, in which individual parts are worn out at various times and therefore require periodic replacement.

Individual elements of the fixed capital are replaced by enterprises or organizations by capital repairs. For that purpose the enterprises accumulate amortization funds from deductions included in the cost of production.

In addition to capital repairs, enterprises and organizations also effect ordinary repairs to prevent the premature wear of parts of buildings, installations and machines. In contrast to capital repairs, ordinary repairs are not financed from the amortization funds, but rather as part of the production outlays (the ordinary repairs of commercial premises as part of the circulation outlays).

The length of use of fixed capital, its safekeeping and normal operations depend on the prompt execution and the quality of capital repairs. Party and government are therefore devoting special attention to the problem of capital repairs and in their decisions have repeatedly stressed the responsibility of economic organizations in the matter of capital repairs in the enterprises under their jurisdiction.

The resolution of the 18th All-Union party conference following Comrade Malenkov's speech said:

"We must further reach the point where industrial enterprises and transport will preserve all material wealth intact and in good condition and where the heads of enterprises will be solicitous with the state property entrusted to them: buildings, equipment, tools, and materials.

"We must put an end to such negligent and noneconomic attitudes toward the national wealth...where delayed or low-quality repairs of equipment, buildings and installations and the rolling stock of the railroads merely serve to break them down ahead of time and put them out of operation" (Rezolyutsii XVIII Vsesoyuznoy konferentsii VKP(b) [Resolutions of the 18th All-Union Conference of the All-Union Com-

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munist Party (Bolshevik)7, Gospolitizdat, 1941, pages 8-9).

2. The Procedure of Planning Outlays for Capital Repairs

Before 1938, the national economic plans did not list any separate outlays for capital repairs of the fixed capital of industrial, transportation and other enterprises: these outlays were included in the total capital investment plan and were financed from appropriations allocated to investments.

That situation led to a weakening of responsibility on the part of the head of enterprises for the timely execution of capital repairs. In many cases the appropriations necessary for that purpose were not allocated and amortization deductions were used for other than their specific purpose. The heads of enterprises did not have the right to dispose of the amortization deductions intended for capital repairs and deductions that remained unused by the end of the year were returned to the budget.

Since 1938 major changes have taken place in the system of planning and financing capital repairs in industry. The government has adopted average norms of annual amortization deductions, differentiated by individual agencies, and average norms for annual appropriations allocated specifically to capital repairs. The norms are expressed in percent of the initial cost of the existing machines, equipment, structures and installations involved. As of 1 January 1950, ministries and agencies have been given new (temporary) norms of amortization deductions and appropriations for the capital repairs of all types of fixed capital, except automobile transportation, for which the norms established in 1945 are still in effect.

In connection with the varying rates of wear of equipment and installations, the government has required the heads of agencies to set up for each enterprise differentiated amounts of amortization deductions and separate appropriations for capital repairs within the limits of the deduction and appropriation norms approved for ministries and main administrations.

Appropriations for capital repairs are not included in the capital investment plan and are now being planned separately. The national economic plans list the annual volume (and a quarterly breakdown) of capital repairs in money terms for individual ministries and agencies. In the case of industrial ministries, quantity indicators are also planned for the capital repair of the main types of equipment and installations.

In accordance with these plans, ministries and agencies then approve both capital repair plans for their subordinated main administrations and appropriation norms for capital repairs for each enterprise. The main administrations in turn set for their enterprises the annual capital repair plans (with a quarterly breakdown) within the limits of the appropriations approved by the heads of agencies.

The plans for main administrations, enterprises and organizations

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are expressed in money terms with separate listing of the types of fixed capital (production buildings and installations, equipment, residential buildings, transportation and so forth) and contain quantitative plans for the repair of the chief types of equipment and installations.

No quarterly breakdown of appropriations is given for enterprises with an annual capital repair plan of less than 100,000 rubles.

3. The Procedure of Financing Outlays for Capital Repairs

Outlays for capital repairs are financed from the amortization deductions of enterprises insofar as these are intended for that purpose. Such funds may not be used for other purposes. With a view to insuring the specific utilization of these appropriations, amortization deductions are credited to special capital repair accounts of enterprises and organizations. These accounts are then used exclusively for the payment of outlays related to repair work.

Funds intended for capital repairs cannot be redistributed by ministries, agencies and main administrations among various enterprises. Exceptions to that rule must be the subject of special government decisions.

Capital repairs funds that remain unused by the end of the year are not returned to the budget but remain at the disposal of the director of the enterprise and may be used for that purpose during the following year.

The capital repairs of industrial enterprises are financed from special accounts opened in the State Bank. Outlays for the capital repairs of construction-installation contracting organizations and geological exploration organizations are financed in the same manner as for industrial enterprises, except that their special capital repair accounts are opened in the investment banks that handle the clearing accounts of these organizations.

The amortization deductions are credited to the special accounts of enterprises and contractors on the payment dates for amortizations intended for construction, i.e. every ten days in the amount of one-ninth of the quarterly capital repair plan. Payment instructions calling for the transfer of the stated amounts from the clearing accounts are honored by the investment banks as soon as all budget claims have been satisfied.

Agreement between the amounts paid into the special capital repair accounts and the actual amortization charges must be checked by the investment banks on the basis of data submitted by enterprises and contractors regarding fulfillment of their capital repair plan. These data must contain the amount of amortization actually charged since the start of the year and the amount paid into the special bank account.

If the payments into the account are found to be less than the actual amortization fees, the bank requests the economic organization in question to transfer the missing sum from its clearing account, and

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in the absence of such payment instructions effects the transfer on its own initiative with the approval of the head of the bank branch. If the bank finds that the payments have exceeded the actual amortization fees, then the excess is deducted from the subsequent payments at the time they fall due.

The financing of outlays for capital repairs must be contingent on the receipt from the enterprises and organizations of a certificate confirming the existence of an annual capital repair plan (with quarterly breakdown) and of preliminary cost estimates for individual capital repair items. The preliminary cost estimates are expressed in current prices and are subject to approval by the head of the enterprise or the contracting organization.

Funds for capital repairs are issued from the special bank accounts only within the limits of the available balance.

The procedure by which the State Bank or the investment banks finance outlays for capital repairs depends on the manner of the repairs -- by the enterprise itself or by a contracting organization.

When the enterprise handles the repairs itself, the work is financed by outlay elements, i.e. the special accounts are used to pay bills for materials and services rendered, for the payment of wages and so forth. In that case, outlays made by the basic operations of the enterprise may be refunded from the special bank accounts upon payment of bills for completed repair work.

When capital repairs are contracted out, the special accounts are used to grant advances to the contractors in the amounts agreed to in the contract and to pay for ten-day and monthly bills for completed repair work; the monthly bills must be accompanied by work acceptance acts signed by the clients and the contractors.

If the banks present requests for the regular payment of the amortization deductions intended for capital repairs, the enterprise or contracting organization may make a counter-request for payment of bills for repair work completed. Such bills (after a proper check) may be used for the unpaid amortization payment.

It was previously stated that contracting organizations may be granted short-term credits in view of the time lag between the making of capital repairs of construction machinery and means of transportation and the payments of amortization deductions for that purpose.

The procedure of the use of amortization deductions and financing capital repairs, established in 1938 for industrial enterprises, was subsequently applied to other branches of the national economy (transportation, municipal services and so forth).

Let us now discuss certain special aspects of the financing of capital repairs of individual branches of the national economy.

Capital repairs of municipal enterprises and trusts are financed

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from special accounts opened in municipal banks or in the State Bank (in the absence of a municipal bank). No special bank accounts are opened for municipal enterprises and trusts that have annual capital repair appropriations of less than 5,000 rubles. In those cases, funds for capital repairs are taken from the clearing accounts of the municipal enterprises and trusts under the supervision of their superior agencies.

Capital repairs of the housing of local Soviets of working people's deputies are usually financed from special accounts in municipal banks.

Capital repairs of the housing of enterprises and organizations are usually financed by the State Bank. In certain cases, capital repairs of the housing of enterprises and organizations, where separate books are kept for such housing, are financed by municipal banks provided current accounts for such housing units have been opened in the municipal banks.

Capital repairs of the fixed capital of consumer cooperatives are financed from special accounts in the State Bank, which in turn are replenished from special funds allocated to the repair and construction of commercial premises within the consumer cooperative system.

Capital repairs of the fixed capital of producer, lumbering and veterans cooperatives are financed from amortization deductions paid into the clearing accounts of these organizations in the state Bank. In certain cases, these organizations, in accordance with their plans, may be granted credit in the form of long-term loans from Torgbank for making their capital repairs.

No amortization deductions are made in budgetary organizations and institutions. Capital repairs of the fixed capital in those organizations are financed from budgetary appropriations issued, as a rule, through the State Bank, and in part through municipal banks.

Amortization deductions paid for the fixed capital of construction projects that are being financed as capital investments are usually not credited to special capital repair accounts of the investment banks. Capital repairs of the fixed capital of such projects are financed from their financing accounts, and, in the case of projects being financed on the basis of work completed (see Paragraph 14 of the Regulations), from the clearing accounts of the chiefs of construction (or of the capital construction departments).

Capital repairs of the fixed capital of collective farms are financed from the indivisible funds kept in the capital investment accounts of Sel'khozbank.

4. Bank Control of the Financing of Outlays for Capital Repairs

The investment banks are responsible for the scheduled payment by the economic organizations of the total amortization charges intended for capital repairs and the proper expenditure of these funds for their specific purpose.

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In checking the expenditure of capital repair funds, the banks follow the instructions of the State Bank, approved by the government in 1938, and in the case of the municipal enterprises the instructions of Tsekombank. The Tsekombank instructions provide a uniform procedure of financing capital repairs of municipal enterprises irrespective of which bank does the financing.

Before issuing funds for capital repairs, the bank checks whether an annual plan with a quarterly breakdown has been approved for the enterprise, whether its data agree with the capital repair appropriations approved by the Minister for the given enterprise, and whether the director of the enterprise has approved a preliminary cost estimate for the individual capital repair items. When capital repairs are handled by a contractor, the bank also checks whether the contracted items and their cost correspond to the approved plans and preliminary cost estimates.

In connection with its verification of the plan approved by the main administration, the bank must receive from the enterprise or contracting organization a certificate listing the following: data on the volume of capital repairs planned for the year and by quarters for the enterprise as a qhole, with a breakdown for the outlays for individual types of fixed capital (buildings and installations, equipment, means of transportation and so forth) and for the major capital repair items; the total amortization deduction norm approved by the Minister for the given enterprise, including the amortization norm and the amount of appropriations allocated to capital repairs; data on the wage fund allocated to capital repairs (this fund may be included in the total wage fund of the basic operations of the enterprise).

The certificate confirming the existence of preliminary cost estimates for individual items generally contains data on the estimated cost of repair work on each item, the date of approval and the scheduled starting and completion dates of the repair work. In those cases where preliminary cost estimates are not being made at the same time for all items, certificates may be submitted to the bank as the cost estimates are being received, but cost estimates must be submitted at the latest by the scheduled starting date of the repair work on the corresponding items. The banks are expected to see to it that the total estimated cost of the repair work listed in the certificates for the current year remains within the limits of the planned appropriations for the current year.

Before issuing funds for capital repairs, the banks must also check the data listed in the certificates against the capital repair plans and the preliminary cost estimates in the possession of the enterprises.

When capital repairs are to be financed by individual outlay elements, the banks must check the construction material prices listed in the bills against the fixed existing prices. Funds for the payment of wages of repair workers may be issued by the banks within the limits of the wage fund set up for that purpose. In those cases where a capital repair wage fund has been included in the total wage fund of the enter-

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prise and has not been approved separately, wage funds for capital repair workers are issued from the clearing account of the enterprise rather than from a special account.

When the repair work is handled by a contractor, the banks check whether items listed in the capital repair plans have been included in the contract agreement and whether the cost of the completed repair of these items corresponds to the preliminary cost estimates.

The banks also carry out subsequent control over the proper expenditure of funds issued for capital repair purposes. In this connection, they make use of periodic and annual audits of capital repair work done by the enterprises and the contracting organizations and carry out on-the-spot investigations. The check must cover the proper documentation of the completed repair work, the actual cost of the work and its agreement with the approved preliminary cost estimates. If the actual cost is found to differ from the estimated cost, the banks must determine the causes for the discrepancy and take the proper measures.

If in the course of their investigations, the banks uncover mismanagement of capital repair work, such as discrepancies between the outlays of funds and the fulfillment of the capital repair program, the illegal use of working capital and other infractions of financial discipline, the banks may impose financial and credit sanctions on the mismanaged organizations.

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CHAPTER XV

THE LONG-TERM CREDITING OF THE CAPITAL INVESTMENTS OF STATE ENTERPRISES

Capital investments of state enterprises and organizations in all branches of the national economy of our country are financed on a non-repayable basis.

Long-term credits granted by the investment banks serve as an additional source of financing for enterprises producing consumer goods and products based on local raw materials, for auxiliary enterprises of state enterprises and state farms, for the capital repairs of municipal housing and the construction of municipal power plants.

The loan thus granted is extinguished within a definite term from the accumulations of the enterprises that are put into operation.

The long-term loans of municipal banks in most cases are granted against the future income of the housing administrations and thus make it possible to expand the volume of capital repairs.

In all these cases the beneficiaries of the long-term credits are small enterprises that can be constructed, organized and repaired within a short time and at relatively little expense.

The large number and the geographical scattering of the credited enterprises and organizations have been a factor in assigning a large share of the long-term crediting to the offices of the State Bank, which handle not only operations related to the granting of loans and the execution of transactions, but also check on the specified utilization of the funds issued.

1. The Long-Term Crediting of Rayon and Oblast Industries

The offices of the Prombank and the State Bank grant long-term loans for the construction and expansion of enterprises in rayon, city and oblast industries that produce consumer goods or products and fuels based on local raw materials.

Prombank grants three-year loans, while the State Bank grants one-year loans. An enterprise may therefore obtain a Prombank loan for one line of production and at the same time get a shorter loan for the organization or expansion of another line of production.

Prombank offices granted long-term loans to rayon, city and oblast industrial enterprises provided that the capital investments of these enterprises are not included in the state's capital investment plan.

Long-term loans are being granted for the organization and construction of new or the expansion of existing enterprises producing consumer goods or food, fuel and construction materials based on local resources. Such enterprises may also include plants engaged in the mining of local raw materials and the processing of semi-manufactured goods and packaging materials used in the production, processing and

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packaging of the consumer goods and local products referred to above.

In order to be granted a long-term loan, a borrower must be able to guarantee the extinction of the loan from accumulations to be achieved by the new or the expanding enterprise. If the accumulations are not expected to be sufficient to extinguish the loan within the term, credit may be granted anyway if the Executive Committee of the local Soviet of working people's deputies guarantees extinction of the loan through the redistribution of accumulations among the enterprises under its jurisdiction.

Enterprises of rayon, city and oblast (including ASSR) industries may be granted loans within the limits of the approved credit plans. The following approvals are required in the case of long-term loans granted by Prombank: loans up to 50,000 rubles upon application by the enterprise and with the approval of the head of the branch bank; loans up to 200,000 rubles upon application by the oblast (kray) executive committees or the Councils of Ministers of autonomous republics and with the approval of the oblast (kray or ASSR) offices of Prombank; loans up to 500,000 rubles upon application of the Councils of Ministers of union republics and with the approval of the republic offices, and in the case of the RSFSR and the Ukraine with the approval of the head office of Prombank.

The credit terms for the construction and expansion of rayon, city and oblast industrial enterprises are set in accordance with the expected ability to pay of the planned enterprises, but with a maximum of three years. The enterprises are expected to submit to the bank a calculation of the expected profits of the projected enterprise based on the cost of a unit of output.

On the basis of the cost of a unit of output, the profit per unit of output can be calculated. The expected monthly output then yields the expected monthly profit for the total volume of production and, after the necessary deductions, the monthly amount of profit that may be used to pay off the loan.

With a view to speeding up the rates of construction of new enterprises financed with long-term loans, the following payment terms have been set up: loans up to 50,000 rubles must be fully issued by the bank within four months of the first payment, loans up to 200,000 rubles within eight months of the first payment and loans up to 500,000 rubles within one year of the initial payment.

The bank payment terms may be extended by the oblast or kray office of Prombank for loans less than 200,000 rubles and by the head office for loans of more than 500,000 rubles /Previous references are to loans of less than 500,000 rubles/. Extensions of the loan terms require an application by the enterprise with enclosure of the decree of the Executive Committee calling of measures to speed up construction or complete it within the newly established term.

The maximum term for the extinction of the loan is calculated starting with the first of the month following the receipt of half the

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bank credit. Consequently, the total term allowed for the extinction of the loan includes half the number of months allowed for the payments by the bank plus the loan extinction term based on the monthly profits, with the total not exceeding three years.

If, say, an enterprise has received a loan of 50,000 rubles for construction and is expected to have a monthly profit of 2,000 rubles (after deductions), then the loan extinction term is 25 months. Since the maximum bank payment term is four months (half being two months) the over-all time period for the extinction of the loan is 27 months.

It was stated above that in cases where the expected monthly profit will be insufficient to pay off the loan within the maximum three years the bank will issue the loan against a guarantee by the Executive Committee regarding extinction of the loan through redistribution of accumulations among the enterprises under its jurisdiction.

As in the case of all construction, designs and cost estimates must be worked out and approved prior to the start of construction if loans are to be granted.

To make it as easy as possible for the industries considered here to build or expand their enterprises, the required designs and cost estimates have been greatly simplified and shortened. The designs must contain the necessary calculations of the capacity of output, a list of the required equipment, buildings and installations, their specifications and location within the construction site.

The cost of the construction work is formulated in preliminary cost estimates using aggregate indicators (such as cubic meters of buildings or installations). The cost estimates are based on the adopted output norms and wage rates, state prices for construction materials and prefabricated parts, and the overhead norms set up for the construction of local industrial enterprises.

Designs and preliminary cost estimates require the following approvals: for enterprises with an estimated cost of up to 100,000 rubles -- chiefs of main administrations and trusts; an estimated cost of up to 300,000 rubles -- chiefs of republic ministries and agencies; an estimated cost of more than 300,000 rubles -- the republic Councils of Ministers.

Both preliminary and subsequent control is associated with the granting of long-term loans by the Prombank. Prior to granting the loan, the bank checks all the credit prerequisites: purpose of the loan; conformity of the planned enterprise or line of production and the established credit conditions; the existence of approved designs and preliminary cost estimates; calculations of the cost of the future unit of output and the expected profits.

The following documents are required before credit can be granted: application by the enterprise; certificate confirming the existence of designs and cost estimates; the permission of the head of the appropriate Prombank office for the granting of the loan.

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With the granting of the loan, a separate loan account is opened to the enterprise. Funds are issued either in payment for contractors' bills or for individual outlays, such as the purchase of materials and equipment, the payment of wages and salaries. Bills for materials and equipment are honored after verification of prices and funds for the payment of wages are issued within the limits of the actual payments (without labor plans and administrative expense limits).

If all outlays are made by the enterprise from its clearing account in the State Bank, these outlays may be replaced from the loan account on the basis of acts for completed work priced in accordance with the preliminary cost estimates.

After the credit has been exhausted and construction has been completed, the loan extinction procedure begins to operate and the payment amounts and dates are set.

The extinction of the loan is handled in the form of equal quarterly payments within the adopted maximum term. The borrower's first payment falls due within six months of the completion of construction and usually coincides with the end of the bank payment term.

If the payments of a loan fail to reach the bank on the due dates, the bank has the right to debit the clearing account of the enterprise with the missing amount within the usual order of priority for overdue loan payments. If the loan is extinguished ahead of the final payment date, the bank reduces the usual percentage (3 percent annually) by 25 percent if the extinction is six months early and by 50 percent if the loan is extinguished one year ahead of schedule.

As part of their credit functions, the banks check on the progress of construction and on the specified utilization of the credited funds. Analysis of the construction work and the expenditure of funds and on-the-spot investigations serve to rationalize construction, reduce costs and insure extinction of the loan within the scheduled term.

If the banks uncover improper utilization of funds, they withhold further funds and demand the payment of previously granted amounts pending prosecution of the responsible persons.

2. The Long-Term Crediting of State Farms

Sel'khozbank grants long-term credit to state farms for the construction and equipping of workshops producing horse-drawn carriages, sleds and harnesses, for the organization and construction of auxiliary enterprises producing local construction materials and fuels (brick, tile, lime, stone, roofing materials, coal, peat).

State farm loans are granted for up to five years at 3 percent interest. The loan extinction term depends on the ability of the planned enterprise to make payments. Payments are made in equal parts starting with the second year.

In case of overdue payments, the state farms lose the right to

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obtain further loans until the overdue debts are extinguished.

When applying for loans, the state farms must submit to the bank branches all the documents called for by the construction financing rules (itemized lists, cost estimates and so forth).

Long-term loans are issued by the bank branches in the usual manner applying to the financing of construction, including the usual preliminary and subsequent control provisions.

The branches of Sel'khozbank systematically check the specified utilization of the funds on the basis of audits and investigations. If they uncover improper utilization of the credit, a lag in the construction schedule or other infractions, the banks cease further crediting and call back the amounts already granted.

All infractions of rules must be communicated by the bank branches to the superior agencies of the state farms.

3. Long-Term Crediting of Local Soviets for Housing Repairs

The basic sources of financing capital repairs of the housing of local Soviets are the funds of the housing administrations and the city's funds. These funds are made up of 95 percent deductions of the rent payments for nonresidential buildings under the jurisdiction of the housing administrations and of 100 percent of the rent payments of residential and nonresidential buildings under the jurisdiction of rayon or city housing administrations.

In some cities the amounts at the disposal of the housing administrations and the city's funds are generally short of their requirements for capital housing repairs. In those cases additional appropriations may be allocated from the local budgets or long-term loans may be granted by the municipal banks.

The municipal banks do not grant their loans for housing repairs to the city Soviets, but directly to the housing administrations if these administrations are in a position to repay the loans out of their income of the following year.

In exceptional cases, with the permission of Tsekombank, loans may be granted to the housing administrations with extinction provided from the city's funds for the financing of capital housing repairs. Such loans are not granted to housing administrations, but instead are regarded as assets of the city's funds for the financing of the capital repair plan approved for the local Soviet. The long-term loans are granted only for the capital repairs listed in the itemized lists of the housing administrations and if a certificate confirms the existence of an approved cost estimate or a rated description of the work.

The funds of the housing administrations themselves and the loans granted by the municipal banks are allocated firmly to the individual housing administrations and cannot be redistributed. However, in ex-

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ceptional cases, by decree of the Executive Committees of the local Soviets, the funds of profit-making housing administrations may be used for the repayment by losing housing administrations of long-term capital repair loans granted for a maximum of five years.

Such loans are granted by the banks if the housing administration has some surplus funds during the current year in accordance with its plan; or if housing administrations that lack such surplus funds may extinguish the loan anyway within the stated term. Long-term loans for capital housing repairs are granted by the municipal banks at one percent annually, with the interest rising to 6 percent on overdue loans. When granting the loans, the banks must receive a statement of the payment obligations on the part of the housing administration.

The loans granted by the municipal banks are credited to special capital repair accounts of the housing administrations. The municipal banks carry out both preliminary and subsequent control over the expenditure of funds in those accounts.

4. Long-Term Crediting of the Construction of Small-Capacity Hydroelectric Stations.

On the basis of the annual credit plan of Tsekombank, which is drawn up on the basis of data furnished by the Ministry of Agriculture USSR and the Ministries of Municipal Services of the republics, the municipal banks grant long-term loans for the construction of small-capacity hydroelectric stations in workers' settlements, populated places of the urban type and in rayon centers situated in rural areas.

The crediting of these hydroelectric stations is contingent on a construction cost of less than one million rubles, including the cost of the high-voltage transmission line to the rayon center and transformer substations.

Loans are granted for up to five years with extinction provided from the operational incomes of the hydroelectric stations, or, if the latter should prove insufficient, from the funds of the local budget.

The funds granted in the form of long-term loans are issued to the construction projects of the hydroelectric stations together with the general funds allocated to their financing (on the basis of the rules for the financing of construction by Tsekombank and the municipal banks).

In addition, the municipal banks also grant credit for measures designed to increase the capacity of existing municipal enterprises (power stations, water lines, laundries and so forth).

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CHAPTER XVI

THE LONG-TERM CREDITING OF COLLECTIVE FARMS

1. The role of Agricultural Credit in the Organizational and Economic Strengthening of Collective Farms

As a result of the implementation of the Stalinist policy of collectivization and the liquidation of the kulaks as a class, our agriculture has been transformed from a formerly backward branch of our economy into the world's leading and largest agriculture, equipped with first-class machinery.

Summarizing the results of the Socialist reconstruction of agriculture, Comrade Stalin said at the 18th Party Congress that the collective farms had been strengthened and consolidated and that the Socialist system of agriculture had become the only form of agriculture in the USSR. The advantages of the collective system are that it permits the use of the most recent machinery and the findings of agronomic science and that it insures the development of agriculture according to the laws of expanding Socialist reproduction.

The party and the Soviet Government have done much to strengthen the organization and the economy of the agricultural artels and this has insured a steady rise in the collectivized holdings of the farms, improvement of the material well-being of the farmers and a rise in their cultural level.

Farm credit has played a major role in the organizational and economic strengthening of the collective farms. Finances and credit are being used by the party and the Soviet Government as one of their most powerful instruments in the Socialist reorganization of agriculture and its further development. In the first few years after the October Socialist Revolution, the state granted regular credit assistance to poor peasants and farm cooperatives that were being organized and developed along the lines of Lenin's brilliant cooperative plan.

The first farm credits were granted in 1922 and 1923 in the amount of 16.6 million rubles, chiefly to poor peasants. After that the amount of credits rapidly grew. From 1924/25 to 1927/28, farm credits (excluding nonrepayable state investments from the budget) amount to 1,398,300,000 rubles, including 657 million rubles to state farms, collective farms, cooperative and public organizations, and 300.2 million rubles to poor peasants.

Following the victory of the collective system, investments in the fixed capital of Socialist agriculture increased by several times. The state's financial assistance to agriculture took the form largely of nonrepayable budgetary appropriations for the construction and technical equipment of machine-tractor stations, state farms and other state enterprises.

At the same time, the state rendered financial assistance directly to the collective farms in the form of long-term farm credits. During

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the First Five-Year Plan, the farm credit system issued 2,610,500,000 rubles in long-term loans, including 1,417,700,000 to collective farms. During the Second Five-Year Plan farm credit rose to 3,032,500,000 rubles, including 2,620,500,000 rubles to collective farms. Alone during the three years of the Third Five-Year Plan (1938-1940), credit worth 3,462,900,000 rubles was granted to collective farms and collective farmers. These credits aided in the growth of the collectivized holdings of the farms and increased their money incomes and indivisible funds, as a result of which the collective farms made out of their own resources capital investments amounting to tens of billions of rubles.

During the First Five-Year Plan large amounts of credit were granted for the purchase of agricultural machinery and implements, but during the Second Five-Year Plan and later when machine-tractor stations began to be established in large numbers long-term credits were intended chiefly for the development of collectivized livestock holdings, electrification, irrigation and melioration projects, soil improvement and resettlement, the development of industrial crops and fruit and vegetable gardening.

The strength and vitality of the collective system manifested themselves especially during the Great Patriotic War. Overcoming all obstacles, collective and state farms managed to supply enough food to the army and the population and raw materials to industry.

The German-Fascist occupiers inflicted tremendous damage to our Socialist agriculture. Losses suffered alone by the collective farms amounted to 181 billion rubles. But even during the war, as the Soviet Army was gradually liberating the temporarily occupied areas, the Soviet state started to render assistance to the collective farms in the restoration of their collectivized holdings.

After the victorious conclusion of the war, our nation faced the task of rapidly restoring and developing the national economy.

On the basis of the resolutions in February 1947 of the plenum of the party's Central Committee, the collective farms, machine-tractor stations and state farms started to engage in Socialist competition and successfully fulfilled the postwar Stalinist Five-Year Plan.

The rise of agriculture during the postwar period has resulted in an increase of the collective farm incomes and collectivized holdings, and in an increase in the income in money and in kind that is distributed among the farmers on a labor-day basis.

Farm credits played a key role in the rise of the collective farms in the postwar period. The long-term credits granted each year during this period were several times greater than during the prewar years. The credit granted alone during 1949, for example, exceeded the total credit granted during the Second Five-Year Plan.

More than half of all the credit granted during the postwar years was intended for the restoration and development of collectivized livestock holdings, the purchase of livestock, the construction of livestock pens, the mechanization of livestock farms and the purchase of seed for

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the expansion of perennial grasses. Almost one-fifth of the credits went into rural electrification, chiefly the construction of new power stations. Large credits were also granted for melioration, irrigation, afforestation, the expansion of subtropical and industrial crops, fruit, vineyards, and vegetable gardening. Credits granted for the purchase of mineral fertilizer greatly increased compared with prewar years. A sharp rise was also recorded in credits granted for resettlement purposes in connection with the development of new farm lands and the establishment of collective farms there.

The transition from the first to the second phase of communism has made it necessary to saturate our nation with consumer goods and create an abundance of products. In this connection the Bolshevik party and the Soviet Government have confronted Socialist agriculture with new tasks. On the initiative of Comrade Stalin, a grandiose plan of the transformation of nature, a three-year plan of development of collectivized livestock holdings, and a reorganization of the irrigation system are now under way.

New gigantic projects of communism are under way in our country. The construction of the hydroelectric stations on the Volga and the Dnieper and the Main Turkmen, South Ukrainian and North Crimean canals will insure the irrigation and watering of millions of hectares of arid lands in the Volga and Caspian regions, Turkemia, the Kara-Kalpak ASSR, the Ukraine, and the Crimea, thus raising and stabilizing crop yields, strengthening the fodder base for livestock and yielding water power for the needs of agriculture.

To insure a further organizational and economic strengthening of the collective farms, increasing their collectivized holdings, their incomes and their materials and cultural well-being, our party is taking steps to merge small collective farms that are in no position to apply mechanization and scientific techniques to their limited land holdings.

The tasks faced by agriculture and the steps being taken by the party and government to strengthen the collective farms' organization and economy are increasing the role played by Sel'khozbank and will require its active contribution in the form of collective farm credit, the accumulation of the indivisible monetary funds, control over the specified use and scheduled extinction of the credits and assistance to the farms in their financial management and accounts.

Soviet farm credit differs fundamentally from its capitalist counterpart. Under capitalism, farm and cooperative credit serves to enrich the large land owners and the rich farmers and inevitably leads to the ruin and the impoverishment of the small and middle farmers. Soviet farm credit, on the other hand, renders aid to the collective farmers in the matter of strengthening and increasing their collectivized holdings, bringing prosperity to collective farm life and insuring abundance and a high cultural level on the part of the collective farmers.

2. Basic Principles of the Long-Term Productive Crediting of Collective Farms.

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The long-term farm credit granted to collective farms is intended for the realization of capital investments and the fulfillment of state agricultural plans.

One of the key principles in the long-term crediting of collective farms is the participation of the farms in the credited undertakings with their own contributions. These contributions consist of the annual deductions from the collective farm money incomes that go into the indivisible funds, the receipts from the sale of draft livestock, interest received from Sel'khozbank on farm deposits, and so forth.

The Government sets up average credit norms in percent of the cost of the credited undertakings or the total amount of money required to insure a proper distribution of credits and the farms' own contributions in the credited undertakings. These norms may be increased or reduced depending on the financial position of the farm. Moreover, with a view to avoiding a scattering of credits granted to the farm, the loan may be issued to pay entirely for one undertaking while the farm's own contributions are applied entirely to another undertaking.

In all cases, however, the credit granted by the bank must be sufficient to insure the complete realization of the credited undertaking in conjunction with whatever contributions the farm itself can put up.

A scattering of credit tends to keep the farm from completing an initiated project or realizing another undertaking and thus immobilizes funds in incompleted capital investments. On the other hand, if the credit granted by the bank exceeds the amount required by the farm to pay for a given project, then the farm has a surplus in funds that are tantamount to unused credits.

Another matter of major importance is the strict adherence to the government's payment schedules in the extinction of the long-term farm credits. The schedule varies with the nature of the credited undertaking and the financial position of the farm, but is generally designed to enable the farm to repay the loan from the income derived from the credited undertaking. The repayment of the loan therefore depends largely on the time of completion of the credited project. Too short a payment term would prevent the farm from extinguishing the loan on time and would produce overdue indebtedness and completed the financial position of the farm. An excessively long payment term, in the other hand, tends to slow the turnover rate of the farm credit and reduces the bank's resources.

In setting the credit term designed to speed the completion of the credited projects, the bank must therefore be guided by the government-approved payment scale that lists maximum credit terms and the starting time for the repayment of loans for every kind of undertaking. On the basis of this scale, the Sel'khozbank offices are able to determine the specific credit terms in accordance with the characteristics of the given collective farm, the time required for the credited undertaking, the income expected, the status of the farm's collectivized holdings and its financial position.

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When the loan is granted, the collective farms submit a statement of their payment obligations, listing the payment schedules not only by years but also by months.

Before determining the payment schedule, the bank must be familiar with the approximate farm income by seasons of the year, the outstanding loans and payment schedules of the farm, and other liabilities and their extinction terms. The credit terms are then adjusted to the farm's money income.

The farms' payment obligations are drawn up in accordance with the manner in which the credit is granted by the bank. When the credit is granted in one or two amounts (for example, for the payment of a bill for purchased livestock) the farm's payment obligations are drawn up at the time the loan is granted. But when the credit is used up gradually, in several payments, the farm's payment obligations are drawn up once every quarter, during the first ten days of the new quarter. If the farm fails to draw up its obligations within the stated period, Sel'khozbank may withhold further granting of credit until the documents are submitted.

Sel'khozbank grants credit upon presentation of a copy of the decision of the collective farm meeting giving the farm office the right to apply for credit; the decision should list the amount of credit desired and the undertaking for which it is requested. In all cases, the Sel'khozbank office determines the purpose of the credit, the amount of credit and the share of the farm's own contribution within the approved credit plan only upon application by the farm itself.

The Soviet state grants long-term farm credit at the very favorable terms of 3 percent interest. If payments are overdue, the interest rate may rise up to 6 percent. Interest is calculated on a quarterly basis and is paid by the farm at the end of each quarter.

The granting of Sel'khozbank loans is associated with preliminary and subsequent control of the proper and specified utilization of the credit. Loans are granted as needed for the payment of purchased materials or for the payment of actual outlays on the credited undertaking. For such undertakings as the purchase of livestock, construction materials, fertilizer, machines, equipment and so forth, the bank pays the suppliers' bills on the basis of the usual forms of transactions (payment instructions, invoices according to the acceptance method, letters of credit and so forth). When paying such bills, the bank verifies the existence of receiving or delivery acts or statements in the invoices confirming the shipment of the supplies purchased by the collective farms.

When granting loans, the bank should transfer the amount of the loan to the farm's account to facilitate preliminary control over the proper utilization of the credit. Only if other transaction forms cannot be used, may the bank issue the loan in cash.

3. Planning of the Long-Term Productive Crediting of Collective Farms.

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The destination and the amount of long-term farm credits are set by the annual government-approved credit plan of Sel'khozbank.

The distribution of credits by types of undertakings and territorial distribution are in turn set by the state agricultural plan.

When planning long-term credits, the authorities must avoid their mechanical distribution without regard to the real needs of individual areas and collective farms. The proper planning of farm credit and their timely availability to the collective farms insures the proper utilization of the loans and insures the completion within schedule of the credited undertakings envisaged by the state plan.

In compiling the credit plan the head office of Sel'khozbank must be guided by the following documents: government decrees regarding the development of agriculture; government instructions on the crediting of certain branches of the economy; Plans of the Ministry of Agriculture for the development of output and capital construction in the collective farms, credit applications from the republic, kray and oblast offices of Sel'khozbank. Sel'khozbank submits its draft credit plan to the Ministry of Finance USSR for approval, and the Ministry and the State Planning Committee USSR base their comments on that draft.

In compiling the credit plan, Sel'khozbank also makes a note of the contemplated financing sources; these consist of the free assets of Sel'khozbank, the payments on previous loans, other sources that can be mobilized by the bank, and reinforcements of the bank's credit resources from the union budget.

The government-approved credit plan is then communicated by the Sel'khozbank head office to its republic offices.

The republic offices of Sel'khozbank (in the Ukrainian SSR the representative of Sel'khozbank, and in the RSFSR the head office itself) submit their credit plans for approval to the Councils of Ministers of the union republics. These plans are broken down by types of undertakings, and by autonomous republics, krays and oblast in the republic or directly by rayons if there are no oblasts.

On the basis of these republic plans, the Sel'khozbank offices then draw up credit plans by oblasts, with a breakdown by undertakings and rayons, and submit these for approval to the kray (oblast) Executive Committees.

With a view to preventing a mechanical and uniform distribution of credits and their excessive dispersion, the oblast (kray) offices of Sel'khozbank must carefully study the credit needs of the collective farms in each rayon.

Of major importance in this connection is an analysis of the credit applications of the rayon offices of Sel'khozbank and the production plan submitted to the Sel'khozbank office by the oblast (kray) farm administrations. The production plan must list for each rayon the planned construction and other capital outlays, including their volume

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and cost. The bank offices must also investigate the ability of the collective farms to make their own contributions to the planned capital investments. This requires familiarity with the economics of the collective farms of each rayon, their incomes, the contemplated deductions from their money incomes into the indivisible funds, the existing possibilities of obtaining local construction materials, purchasing livestock and so forth.

The bank offices must grant credits in the first place to the more important undertakings and therefore must be familiar with all major construction projects in the collective farms of a given rayon. They must be familiar with the construction plans of collective farm power stations, large irrigation and melioration installations and so forth.

The credit plan is broken down by the bank's head office and its republic, oblast and kray offices by rayons and the following groups of undertakings:

I. Animal husbandry
II. Crop raising (subtropical and industrial crops, fruit, vineyards and vegetable gardens.)
III. Rural electrification.
IV. Melioration, irrigation, afforestation.
V. Other productive undertakings.
VI. Fertilizer purchases.

The lower Sel'khozbank offices (branches and agencies or, in their absence, State Bank branches) are charged with the preparatory work of drawing up a rayon credit plan even before the receipt of the plan approved by the oblast (kray) Executive Committee.

In preparation for the drawing up of the rayon credit plan, the Sel'khozbank agencies examine the credit applications submitted by the collective farms and make the necessary notations. Approval of the credit application must be based on the annual audits of the farm for the preceding year, its production plan and the estimated incomes and outlays for the current year. Except for the credit applications and reports on the utilization of previous loans, the bank agencies have no right to request the submission of any other materials or reports. Therefore, the bank must base its decisions on random visits to collective farms making the largest credit applications and on the annual reports, production plans, income-outlay estimates and other data forwarded by the farms to the rayon's farm department.

The estimated income and outlay report of the collective farm must list in the columns relating to capital investments the sources from which funds for capital investments are to be obtained and the undertakings for which they are to be spent. In examining the farm's credit application, the bank must not only examine carefully each item relating to the income and expenditure of the funds for capital investments, but must also verify the computations.

The sources that can be marshaled for capital investments include: the remainder of the balance in the capital investment account in

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Sel'khozbank at the start of the year; any funds that have been deducted for the indivisible fund and the receipts of previous years for capital investments that have for one reason or another not been deposited in the capital investment account; deductions for replenishment of the indivisible fund from the current year's money income; receipts from the sale of draft livestock; interest to be paid by the bank on funds deposited in the capital investment account.

The expenditure section of the estimate lists the capital investment outlays for the following items: purchase of materials for construction and capital repairs; wages of the hired construction labor; purchase of machines and motors and outlays for their capital repairs; purchase of productive livestock.

The credit needs will be determined by the difference between the income and the outlays of the collective farm for capital investments. That amount may be greater or lesser depending on the correctness with which the income sources and the capital investment outlays have been calculated.

While the bank office judges the merits of the credit application, it uses the production plan of the farm to check whether the income that can be used for capital investments has been properly calculated and whether the cost of each investment item has been properly calculated on the basis of existing outlay norms, cost estimate norms, prices for materials and equipment, and so forth.

When the bank is verifying the amount required for capital investments, the bank must check whether all appropriate financial sources at the disposal of the collective farm have been included in its potential contribution to the capital investments. The balance in the investment account at the start of the year is checked against the bank's own books. Any amounts that still remain to be paid into the investment account are checked against the farm's annual financial report.

In checking the deductions for the indivisible fund from the money income expected during the plan year, the bank must establish whether the amount of the deductions corresponds to the regulations of the Farm Charter and whether it corresponds to the intended volume of capital investments. For example, if a farm plans large investments and yet provides only a minimal deduction for the indivisible fund, then the bank must suggest that the deduction be increased in keeping with the financial potentialities of the farm, but not exceeding the maximum deduction allowed by the Charter.

The receipts to be obtained from the sale of draft livestock are checked against the production plan, which lists the number of head to be sold and their value at current prices.

The bank's comments, including any suggestions regarding an increase in the farm's own contribution to the capital investments or regarding changes in the estimated incomes and outlays, are submitted to the rayon executive committee when it is about to examine the production plans and the income and outlay estimates of the collective farms.

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On the basis of their decisions with regard to the credit applications, the bank offices then calculated not only the total amount of credit to be granted to each farm, but also the specific destination of the credit by major undertakings and the amount to be contributed by the farms themselves. In this connection the banks must constantly bear in mind that credits are not to be scattered among several undertakings. Credit should be used to complete the most important projects that are envisaged by the state plan for agriculture and should also serve to strengthen the collectivized holdings of the farm.

Using the credit plan approved for the rayon and any instructions submitted by the oblast or kray bank offices, and using the credit applications submitted by the farms, the rayon bank offices then draw up their credit plans with a breakdown by collective farms and projects and submit them to the rayon executive committee.

The procedure of approving and granting the loans varies for different investment undertakings with regard to the amount of credit, the contribution of the farm itself, the terms of payment, and accounting method, and so forth.

4. Farm Crediting for Animal Husbandry

Long-term credits for animal husbandry are designed to aid in the development of the collectivized livestock holdings. This type accounts for most of the farm credits granted by Sel'khozbank. In 1947 and 1948 it made up about 50 percent of all the credit granted to collective farms.

This type of credit has assumed even greater importance in connection with the three-year plan for the development of collectivized livestock holdings.

The state is granting a large amount of credit to the farms in connection with the three-year plan. Credit granted for the development of livestock holdings in 1949 exceeded the credit granted in 1948 by more than three times and the credit granted in 1947 by more than five and a half times. Livestock credit accounted for 56.2 percent of all credit granted to collective farms in 1949. This type of credit is granted for the following undertakings: purchase of pedigreed productive and draft livestock, and the development of rabbit, poultry, bee and fur farms; the building of all kinds of livestock structures; mechanization and water supply of livestock farms, including the purchase of machines for the harvesting and processing of fodder; purchase of grass seed for the improvement of meadows and pastures, and for the field seeding and seed selection of fodder and hay grasses. Credit for each of these undertakings has its own average credit norms, payment terms, and issuing and accounting conditions.

The chief way of increasing collectivized livestock holdings is the natural reproduction of the stock itself and contracting for young stock. At the same time, an increase can be achieved by the purchase of stock, chiefly pedigreed. Loans for the purchase of livestock are issued for 40-60 percent of its cost at state prices for three to five

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years. Payments may start with the second year, except for loans issued for poultry and rabbit farms where payment must start in the first year. As an exception to the rule, loans for 80 percent of the cost of the purchased stock are granted to replace "malleinschik" and anemic draft horses and livestock infected with undulant fever.

Pedigreed stock is sold to the collective farms in accordance with the livestock supply plan. On the basis of that plan, the Livestock Procurement Office of the Ministry of Agriculture USSR concludes a contract with each collective farm, listing all purchase conditions and the adopted accounting procedure. The collective farms must be informed in writing of the time and place of delivery of the purchased stock. Receipt of the stock must be confirmed in an act or a bill listing the veterinary and pedigree certificate, the receipt for the livestock etc.). The acts are drawn up by the Livestock Procurement Office in three copies, one for the collective farm and one for the Sel'khozbank office that granted the credit.

Bills are paid by Sel'khozbank within the limits of the credit granted to the farms and the balance in the farm's own account. Payment is made as provided in the contract concluded between the farm and the Livestock Procurement Office, either through payment instructions of the farm or through a letter of credit issued upon the farm's instructions.

Before payment is made, however, the bank must verify the documents submitted for payment; the established livestock prices; the receipt of the stock; and references to veterinary and pedigree certificates. The overhead charges of the Livestock Procurement Office are checked separately. The Livestock Procurement Office has the right to levy a surcharge on the cost of the stock at the rates prevailing in the given republic, oblast or kray (an average of 8 percent) and in addition may list its actual outlays (within the established norms) for keeping the stock at its stations until picked up by the farm, but not longer than 15 days.

Bills are paid only after the livestock has actually been delivered to the farm and the granting of advances to the Livestock Procurement Office is strictly prohibitied.

In addition to its dealings with the Livestock Office, the farm may also use its credit to pay for stock purchased from individual collective farmers, workers and employes and at markets.

Loans for contracting or purchasing stock from collective farmers, workers and employes are issued in cash upon the farm's request. The request must list the names of the persons who sold or contracted the stock and itemize the animals (cattle, sheep, hogs) with their weight and cost.

Loans for the purchase of stock at markets are also issued in cash upon presentation of a list itemizing the proposed livestock purchases and their approximate cost.

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Loans for the construction of cow and calf stalls, silos, and horse, pig, sheep and poultry pens are granted for up to 75 percent of the money outlays for a period of 10 years, with the first payment due in the third year.

When credit is granted for the construction of livestock pens, the bank must check the construction schedule and prevent funds from being immobilized in incompleted projects. If the farm has had an incompleted project for a number of years, the bank must see to it that any new credit is used for the completion of that item.

If the tasks posed by the three-year livestock plan are to be fulfilled, the farms must erect livestock structures that correspond to modern needs and permit mechanization. The construction of new structures must therefore follow standard designs worked out by the Sel'khozproyekt /farm designing organization/ and approved by the Ministry of Agriculture USSR. Construction must be carried out economically, with maximum use of the collective farm labor and local construction materials prepared by the farm itself.

In granting credit for construction, the bank expects the farm to submit cost estimates of all construction work exceeding 30,000 rubles.

The procedure of granting credit for construction depends on the nature of the outlays for which the loan is needed. In most cases, the farm needs money to pay for construction materials that it cannot produce itself and also to pay skilled labor hired from the outside. Accordingly, the bank would pay for the construction materials by honoring bills accompanied by the farm's payment instructions after the actual shipment of the materials or their receipt by the farm has been verified.

In those cases where the farm produces the construction materials and requires a loan for the purchase of equipment or auxiliary materials, for the payment of woodcutters, and so forth, the loan is granted against bills or other documents confirming the actual outlays.

Loans for the payment of outside workers and specialists are granted on the basis of work contracts or wage payment certificates, provided that these outlays are included in the income and outlays estimate approved by the general collective farm meeting.

Credit for the purchase of grass seed is granted for 60 percent of the cost (as an average) for a period of three years, with payments starting in the second year. The loan is granted by paying bills for the purchased seed.

Credit for the purchase of fodder harvesting and processing machines and also for the mechanization of livestock farms is granted for 50 percent of the money outlays for a six-year term with payments starting in the second year. Upon petition by the oblast or kray executive committees, credits for the mechanization of livestock farms may be granted for 100 percent of the money outlays for a ten-year term.

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5. Farm Crediting for Electrification

Farm electrification plays a key role in the improvement of villages and the increase of labor productivity in farm production. Thousands of collective farms, machine-tractor stations and state farms have been electrified thus far.

Rural electrification is being furthered chiefly through the construction of hydroelectric stations and steam power plants designed for the use of local fuels. The construction of hydroelectric stations is sometimes linked with irrigation undertakings that are designed to increase the crop yield.

Credit for the construction and equipping of power plants, high and low voltage transmission lines and substations is issued for 75 percent of the money outlays envisaged by the cost estimate for a ten-year term with payments starting in the third year.

Power plants are the largest items in rural construction, requiring precise technical calculations, correct designs and cost estimates. Sel'khozbank must therefore carefully verify the existence of properly approved designs and cost estimates.

For power plants costing less than one million rubles, the designs must be approved by the Ministries of Agriculture of the union republics and the chiefs of the oblast or kray farm administrations. (The Ministries of Agriculture of the Ukrainian, Georgian, Kazakh, Belorussian and Uzbek SSR's have the right to approve designs for projects costing up to 2 million rubles).

For power projects costing up to 3 million rubles, the designs must be approved by the chief of Glavsel'elektro /Main Administration for Rural Electrification/ of the Ministry of Agriculture USSR (he also approves all standardized designs), while the Minister of Agriculture USSR must approve the designs for projects costing more than 3 million rubles.

Many hydroelectric stations and irrigation projects are designed for more than one collective farm plus any state organizations in the area. This requires a special credit procedure.

The construction of power plants and high-voltage transmission lines is financed as follows: for hydroelectric stations serving one or more collective farms -- from the farms' own contributions plus farm credit; for hydroelectric stations that also serve state enterprises -- from the collective farm contributions (including the labor of the collective farm members), Sel'khozbank farm credit plus the contributions of the state enterprises in proportion to their expected power consumption.

The cost of power plants shared by several consumers is apportioned on the basis of the money and labor investments of each consumer.

When planning the construction of inter-farm power stations, each

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farm must determine its investment share of labor, materials and money. After the investment share has been settled at a general meeting of the collective farm, the farm concludes appropriate contracts with the other farms sharing in the power project. The member farms then elect a joint power project council charged with the construction and related transactions and the operation of the station after its completion.

Sel'khozbank in accordance with the approved construction and credit plans grants loans to each collective farm individually and so informs the bank branch nearest the site of the construction project. Before credit is granted, each collective farm must submit the following documents to Sel'khozbank: excerpt from the decision of the general collective farm meeting regarding participation in the power project; credit application of the collective farm management, listing the amount of credit desired and the amount of the farm's own contribution to the investment; certificate of the farm management confirming inclusion of the project in the farm's production plan and income and outlay estimate; certificate of the chairman of the joint power project council confirming participation of the given collective farm in the project and listing the farm's share of money and labor outlays and the schedule and amounts of its own contributions to the project. The certificate submitted by the council chairman should also confirm the inclusion of the given project in the construction plan of the local office of the Main Administration for Rural Electrification and the existence of properly approved designs and cost estimates for the project.

The bank nearest the project site then opens two accounts for the project council: a passive account for the contributions pledged by the member farms and an active account for the issuance of funds within the limits of the granted credit.

Before these accounts can be opened, the project council must submit a copy of the contract concluded among the collective farms, a copy of the protocol confirming election of the council chairman, a copy of the contract with the local office of the Main Administration for Rural Electrification (if the construction work is contracted out), and the designs and cost estimates for the project with an accompanying statement of the money outlays of the collective farms.

Funds from the active account are issued only after all farms have made their first contributions to the passive account.

The construction expenses are then paid by Sel'khozbank upon instructions from the project council first from the passive account, and after that has been exhausted, from the active account.

Upon completion of the construction (or if construction is not completed in the given year, not later than 15 December) the project council submits a statement to the bank listing the distribution of all the credits used by the individual collective farms. The bank nearest the project site then informs the respective collective farm branches of the amount of credit used by the respective farms so that

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these farm branches can proceed to draw up the payment terms.

With a view to assisting the farms in the construction of such complex installations as hydroelectric stations, the government has set up special construction organizations -- the local offices or trusts of the Main Administration for Rural Electrification -- that can carry out the work for the farms on a contract basis. The construction can be handled in its entirety or only in part by the contracting organization; in the latter case it contributes chiefly technical assistance, installs equipment and so forth.

When concluding a contract with the local office or trust of the Main Administration for Rural Electrification, the project council must specify the obligations of the two parties and the method of paying for the completed work. The existing standard contract agreement provides for the obligations on the part of the contractor in accordance with existing contract regulations and government decisions relating to rural electrification.

When the project is to be built by a contractor, the Sel'khozbank branch on instructions of the project council grants an advance of up to 15 percent of the current year's project cost to the contracting organization. After that the bank the contractor's bills for completed work (in cost estimate prices) after their acceptance by the project council. Funds from the passive and active accounts are issued for the following operations: compilation of the technical designs and cost estimates; compilation of blueprints and related research; salaries of the technical management; cost of the equipment or any prefabricated steel, reinforced concrete and timber sections,; excavation and transportation outlays; wages of skilled hired labor; bills for purchased construction materials; advances granted to the contractor and the contractor's bills for completed work.

If a collective farm is having a power plant built for its own needs exclusively, the credit granted by the bank is charged entirely to that farm and the credit is issued in the same manner as discussed above.

6. Farm Crediting for Melioration, Irrigation and Afforestation

The Stalinist plan for the transformation of nature envisages a grandiose work program of afforestation and melioration that is now under way. About 1.3 million hectares have been afforested in the last two years.

A major role in the program of afforestation, melioration and irrigation by the collective farms is being played by the state's financial aid in the form of farm credits. The credits are intended to pay for the following types of work:

1. Irrigation -- the construction of dams, embankments, dikes, spillways, irrigation canals, irrigation mechanisms and sprinkler systems, capital repairs, equipment, reconstruction and planning of old irrigation systems.

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2. Farm water supply (watering) -- construction of wells, ponds, water pipelines, watering canals and other installations and their capital repairs.

3. Drainage -- construction of drainage systems (ditches, canals), regulation of reservoirs, capital repairs, reconstruction and planning of old drainage systems.

4. Stubbing and clearing of the land.

5. Afforestation work.

Average norms and credit terms for irrigation and melioration projects vary with the type of undertaking and the area.

Collective farms of the Central Black-Earth Oblasts and the southern oblasts of the Ukrainian SSR can get irrigation work credit to the extent of 1,000 to 2,000 rubles per hectare to be irrigated for eight years at 2 percent interest. These credits are issued irrespective of any outstanding loans. Collective farms of these areas (upon approval of the oblast executive committee) may get supplementary loans (in excess of the irrigation credit norm) for the purchase of equipment and machinery needed for the irrigation work.

Credit is granted under similar conditions to farms of other areas that are engaged in irrigation work in accordance with the decree of the Council of Ministers USSR and the party's Central Committee regarding the shelter belt plan.

Farms of the steppe and wooded steppe areas of the European part of the USSR may get loans for the construction of ponds and reservoirs for 75 percent of the money outlays and a ten-year term, with payments starting in the third year.

Afforestation credit is granted for the following undertakings: preparation of the soil and purchase of seed for tree nurseries in the amount of 90 percent of the outlays involved, purchase of planting material in the amount of 50 percent of the total cost. The credit terms for steppe and wooded steppe farms are ten-year loans with payment starting in the fifth year. In a further effort to assist the farms, Sel'khozbank has been given the right to grant credit for the purchase of acorns and other tree seeds for the planting of shelter belts in the amount of 50 percent of the total cost (as an average) and a five-year term with payment starting in the second year.

The credit regulations provide that loans granted for melioration and irrigation (except for the undertakings discussed above) may amount to 60 to 80 percent of the money outlays with the following terms: 8 to 10 years for the construction of irrigation and melioration systems with payments starting in the third year; and 3 to 7 years for the cultivation of new land, improvement of meadows and pastures, farm and forest melioration and other work, with payments starting in the second or third year.

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Credit for irrigation and melioration projects may be granted only on the basis of properly approved designs and cost estimates. As a further move to assist the collective farms of the Central Black-Earth oblasts and the wooded steppe areas of the European part of the USSR, the government budget pays for all designing and research work, the compilation of designs and technical management of irrigation, pond-construction and pump-installation projects.

Moreover, to speed the irrigation work in the collective farms of the Central Black-Earth oblasts and in all farms of the steppe and wooded steppe areas of the European part of the USSR, the government has called for the construction of dams and pumping installations on the basis of standard designs accompanied by preliminary cost estimates instead of the actual construction cost estimates. Individual technical designs are however required for the construction of the actual irrigation networks.

The credit granted to the farms for irrigation and melioration work is then used to pay for: the work of construction machinery and hired means of transportation; materials, equipment, technical assistance and other work, as well as labor hired from the outside.

When the irrigation and melioration work is handled by contractors, the credit is granted to the farms for the payment of advances to the contractors, for the payment of the contractors' bills for completed work, and for the purchase of equipment and prefabricated steel and timber parts.

7. Credit for Crop Raising, Fertilizer Purchases and Other Needs

The Soviet Government is rendering much assistance to the collective farms in the matter of crop raising and increasing crop yields through its machine-tractor stations. However, some crop-raising branches (fruit, vineyards, vegetables, citrus and subtropical crops) require long-term investments for which the state grants long-term farm loans.

During the Postwar Five-Year Plan, more than 500,000 hectares of fruit, berry, vineyards, citrus and tea areas were added.

On Comrade Stalin's initiative, special undertakings are now under way to introduce subtropical and citrus crops into the Northern Caucasus, the Crimea, the southern Ukraine and Moldavia.

Outlays for the expansion of fruit, berry, subtropical, citrus and other perennial crops are capital outlays and are therefore credited by Sel'khozbank. The average credit norms, expressed in rubles per hectare of new plantings, are designed to insure the completion of the project with the use of modern agricultural technique.

The credit terms for perennial crops depend on the time the new plantings start to bear fruit. Loans for the expansion of vineyards for champagne production are granted for 7 years with payment starting in the fifth year; other types of vineyards -- for 7 years with payment

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starting in the fourth year; for vine nurseries, which bear fruit much earlier -- for 3 years with payment starting in the second year.

Loans for the expansion of fruit orchards are granted for 7 years with payment starting in the fourth year, and in the case of berry gardens for 3 years with payment starting in the second year.

Loans for tea plantings are longer-term. Loans for the preparation of the soil, the planting of the tea and its cultivation are granted for 12 years with payment starting in the sixth year, and in the case of tea nurseries, for 4 years with payment starting in the second year.

Loans for citrus plantings are granted for 11 years with payment starting in the seventh year, and in the case of other subtropical crops, for 6 years with payment starting in the fifth year.

The loans for all these undertakings are intended to pay for the planting material purchased by the collective farms and the cost of the mechanized work involved in planting and cultivation.

Loans for the maintenance of tea plantations are intended to pay for work performed by the machine-tractor stations, other money outlays of the collective farm, and the work done by the collective farm members.

Loans for vegetable, tobacco, flax, essential oils, medicinal and other crops are issued for capital outlays related to the introduction and development of those crops. In vegetable gardening, this includes the purchase of hothouse equipment and the construction of hotbeds and hothouses; in tobacco growing -- the construction of drying facilities and the purchase of hothouse equipment for the growing of young plants; in flax and hemp growing -- the construction and equipping of braking and drying stations and the purchase of equipment for the preliminary processing of flax and hemp; in sericulture -- the planting of grown mulberry trees, the construction of silkworm nurseries, and the seeding of mulberry trees; in essential-oil and medicinal crops -- the planting of the crops, the construction of hothouses and so forth.

The credit terms for all these undertakings vary with the start of exploitation of the structures or plantings. Loans for the construction of hotbeds and hothouses are granted for 6 years with payment starting in the second year; the construction of tobacco-drying installations for five years with payment starting in the second year; the planting of grown mulberry trees for 8 years with payment starting in the fourth year, the planting of lavender for 5 years with payment starting in the fourth year, the construction of geranium hotbeds for 8 years with payment starting in the fourth year and so forth.

In addition, Sel'khozbank grants loans to farms for other capital investments, such as the installation of radios and the construction and equipping of auxiliary enterprises (tile and brickworks, flour and gristmills, various processing plants). Loans for these undertakings are granted for 7 years with payment starting in the second year. Loans

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are also granted for the purchase of farm machinery, tools and carts.

Separate credits are granted for fish hatcheries and fisheries. These loans are granted to farm artels for the construction of dams for ponds, the cleaning of ponds, stocking them with fish, and the construction of hatcheries. The terms are for 4-5 years with payment starting in the second year.

Large loans are granted to specialized fishery collectives and farms having special fishery brigades. The loans in this case are granted for the construction of fishing boats, shore installations, cultural-social and municipal-residential construction, melioration and hatching, purchase of tools, trucks and other capital outlays.

Mineral fertilizers play a major role in raising crop yields, especially in industrial crops. To aid the farms in the purchase of fertilizer, the Soviet state has set aside large credit funds. Since loans for this purpose are granted for from one to two years, they are included in the credit plan of Sel'khozbank.

Outlays for the purchase of fertilizer are not part of capital investments and must be paid for as part of the production outlays. Fertilizer purchases in the income and outlays estimates are therefore listed under production outlays rather than under capital investments.

Fertilizer loans are granted for 25 to 90 percent of the total cost. The farms usually buy fertilizer from the warehouses of Sel'khozbank [the Farm Supply Organization], which is charged with the sale of fertilizer stocks allocated to it by the state plan. The Sel'khozbank branches open special accounts to the farms, which then transfer their own fertilizer funds from their current account in the State Bank to the special fertilizer account.

Fertilizer bills are then paid upon the farm's payment instructions from the special fertilizer account and the loans granted by the bank for that purpose. In the case of out-of-town transactions, the Sel'khozbank branches honor payment requests from the Farm Supply Organization upon receipt of a written payment order from the farm. Letters of credit issued upon the farm's instructions may be used in the payment for fertilizer.

In contrast to the usual forms of transactions, the farm has the right to issue a single payment instruction covering all fertilizer shipments, although the actual payments of the Farm Supply Organization's bills are made by Sel'khozbank only upon the shipment of each fertilizer lot. In this connection, Sel'khozbank must verify the existence of shipping documents or the receipt of the fertilizer by the farm. Payments for fertilizer prior to shipment by the Farm Supply Organization is strictly prohibited.

In addition to long-term credit, Sel'khozbank also issues short-term loans to collective farms. The need for short-term loans arises because the execution of capital investments in the course of a year

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often does not coincide with the receipt of farm funds slated as its own investment contribution.

The short-term loans are granted within the limits set for the rayon branch of Sel'khozbank for the long-term loans planned for the fourth quarter of the given year. These short-term loans can be granted to farms that pay for the entire planned capital investment out of their own funds, but which expect the receipt of these funds after the completion of the given investment project.

The short-term loans are extinguished out of the farm's ordinary money income, but these payments are made at the expense of the indivisible fund since the loan was used for capital investments.

The short-term loans are granted during the first semester, with the last payment due not later than 1 October, in the case of the Central Asian and Transcaucasian republics not later than 1 November.

The interest on the short-term loans is 4 percent.

8. Sel'khozbank Control of Loan Payments

The scheduled payment of loans is of key importance for uninterrupted credit operations and the fulfillment of the state-approved collective farm credit plan.

The organizational basis in this connection is furnished by the annual loan payment plan. This plan is drawn up by the head office of Sel'khozbank and is communicated to its republic, kray and oblast offices, which in turn make up the plan for their respective rayon branches.

The annual loan payment plan includes the following: the scheduled payments based on the payment obligations of the individual collective farms; the overdue loan payments at the start of the year; and payments on short-term loans to be issued in the course of the year.

In the rayon branches of the bank the annual loan payment plan furnishes the basis for payment reports listing the expected payments by months and by individual farms. These data are then used to send notices to each farm before the start of the year and not later than 1 January informing them of the impending payments due to the bank.

When the rayon executive committee then examines the income and outlays estimate for the current year, the bank ascertains whether the impending payment obligations have actually been taken into account.

According to the Collective Farm Charter and existing legislation, the farms are required to give first priority to the payment of any loan installments out of their general funds. The loan payment is made when the farm instructs the State Bank to transfer the given amount from the farm's current account to Sel'khozbank.

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Whenever, the farm management for one reason or another withholds payment of a loan installment, the bank requests the rayon executive committee to prod the farm management with regard to the payment.

If necessary, the payment may be forcibly seized only by a court order. But recourse to a court must be regarded as the last step and should be taken only in extreme cases. The court order is implemented by transferring the given amount from the farm's current account in the State Bank to Sel'khozbank. The law provides that not more than 70 percent of the balance in the farm's current account may be forcibly seized. If that amount is not sufficient to pay for the overdue loan installment, the remainder may be seized from subsequent receipts credited to the current account, but still within the 70 percent limit.

The proper organization of loan payment collections on the part of the Sel'khozbank requires mass-explanation work in the collective farms, thorough familiarity with the financial position of individual collective farms and practical assistance in overcoming any financial difficulties of the farms.

9. Sel'khozbank Control over the Proper Utilization of the Loans and Assistance to the farms in their Financial Matters

In connection with its credit work, Sel'khozbank must seek to attract the farms' monetary indivisible funds into their capital investment accounts and render assistance in their financial problems. Sel'khozbank must moreover effect preliminary and subsequent control over the proper utilization of the granted loans.

In the course of their preliminary control, the banks check the existence of documents confirming the specified utilization of the loans, but that control alone does not insure the proper utilization of the credit. For example, in connection with construction loans, funds are allocated for the payment of bills for purchased construction materials. It may turn out, however, that these materials remain unused or that they are being consumed for other purposes than the specified construction. In another case, cash issued on the basis of work agreements or payment reports for the payment of workers hired from the out side may actually have been used for some other purpose and so forth. Therefore however strict the preliminary control, it must be supplemented by subsequent control.

Subsequent control over the specified utilization of the loan takes the form of a check of the audit submitted by the farm and an on-the-spot investigation of the actual utilization of the loan.

The farm audit submitted to Sel'khozbank is limited to a quarterly report on the utilization of the loan during the preceding quarter. The bank has no right to require additional forms of reports. The report must state specifically how the loan was used, how much was spent altogether and what part of the credited undertaking has been fulfilled.

Using these reports, the bank's own books and the reports submitted by the farms to the rayon farm department, the bank can establish

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the specified utilization of the loan and in case of infraction take the necessary measures.

A more reliable test is only an on-the-spot investigation, which enables the representative of Sel'khozbank to familiarize himself with the pertinent documents, the course of construction and the realization of other investment items credited by the bank.

Such an on-the-spot investigation must take place at least twice a year. The bank must check the specified utilization of the loan, whether the volume of completed work is in accordance with the funds spent and whether the respective undertakings have been fulfilled in accordance with the farm's production plan.

The Sel'khozbank representatives may ask the farm's own review commission to participate in the on-the-spot investigation.

When visiting the farm, the bank agent must establish first how the loans have been utilized on each investment item, with particular attention to the cash received by the farm.

When the agent finds improper utilization of a loan, he must establish the amount and the purpose for which the loan has been misused and how this misuse has affected the progress of the credited undertaking.

If it turns out that the farm has made no use of the loan, then the bank agents must establish the reasons for that situation and, together with the farm management, take the appropriate measures to insure full utilization of the loan; if necessary changes in the farm's credit plan may be proposed.

The bank agent on his visit to the farm must not limit himself merely to a check of the utilization of the loan; he must also establish what progress the credited undertaking is making and whether the farm's own investment contribution is being utilized.

In determining thedegree of fulfillment of the capital investments financed with the bank's loan and the farm's own contribution, the bank agent must examine the various investment items (structures, plantings, seedings) and inspect their progress.

At the same time the bank agent must inspect the safekeeping and the utilization of the farm's indivisible funds and the payment schedule on Sel'khozbank loans.

The bank agent then draws up a report on his visit to the farm, on the basis of which Sel'khozbank takes measures designed to remove any shortcomings that have been uncovered.

According to existing credit regulations, Sel'khozbank has the right to withhold further credit if it establishes: (a) misuse of the granted loan (in that case, in addition to withholding further credit, Sel'khozbank may take steps to recover the misused loan funds before

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their regular payment); (b) mismanagement and discrepancies between the funds spent and the fulfillment of the investment program.

Sel'khozbank must give 10-day notice to the farm regarding the withholding of credit and inform the rayon executive committee of the reasons for that step. Credit may be restored after the farm has eliminated the shortcomings in question.

The Sel'khozbank offices render constant assistance to the farms in their financial problems, such as the recovery of debtors' payments, the proper organization and keeping of accounts, the safekeeping of cash, and the proper handling of monetary operations, especially in capital investments, and the proper organization of transactions with buyers and suppliers.

Sel'khozbank's role is especially important in the farms' proper creation, safekeeping and expenditure of their indivisible funds. Deductions into the indivisible monetary fund are kept in Sel'khozbank in a special capital investment account opened to each farm; this insures the proper utilization of the fund in accordance with the farm's production plan and the income and outlays estimate. Expenditure of these funds under the control of Sel'khozbank insures the proper utilization of the indivisible funds, thus strengthening the collectivized holdings of the farm.

In connection with the vast amount of work involved in rendering assistance to the farms in their financial matters, the bank tries to attract the interest of the collective farm members themselves to these matters.

Once a quarter, the Sel'khozbank offices report to the rayon executive committee on the course of the farm credit operations, the results of their investigations of the specified utilization of the loans and the progress of the credited investment undertakings, as well as the fulfillment of the loan payment plan and the growth of the farms' indivisible funds. In connection with these reports to the rayon authorities, the banks also make their suggestions designed to eliminate any shortcomings uncovered at the farms and to regularize their financial dealings.

The head office of Sel'khozbank has provided a special form used by the branches to report on their control work regarding farm loans and individual loans at the end of each quarter. These reports make it possible to improve the control work and to generalize the practical experience of managing and handling farm loans.

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CHAPTER XVII

LONG-TERM CREDITING OF COOPERATIVE ORGANIZATIONS

1. Long-Term Crediting of the Capital Investments of Producer and Veteran Cooperatives

The party and government are constantly concerned with the problem of satisfying the population's need for food and consumer goods.

"In contrast to the capitalist economic system, socialism is unthinkable -- and therein lies the law of its development -- without the state's day-to-day concern for the well-being and the cultural level of the working people" (G. M. Malenkov, 32-ya godovshchina Velikoy Oktyabr'skoy sotsialisticheskoy revolyutsii /The 32nd Anniversary of the Great October Socialist Revolution/, Gospolitizdat, 1949, page 11).

A major factor in the satisfaction of the population's need for consumer goods is the output of local industry and the producer, woodworking and disabled veteran cooperatives (hereafter called producer cooperatives for brevity).

With a view to facilitating the tasks that confronted the producer cooperatives, the government even before the Great Patriotic War granted them a number of financial privileges, a procedure for selling their output and aided in the organization of the cooperative systems. At the present time all producer cooperatives are under the jurisdiction of the Central Council of Producer Cooperatives of the USSR. In addition there are republic, oblast (or kray), and a number of city councils of producer cooperatives.

The expansion in the output of consumer goods by the producer cooperatives requires large amounts of capital investment and working capital. As stated in Chapters II and V, all funds intended for capital investments and working capital of the producer cooperatives are handled by Torgbank, which also grants long-term loans to the cooperatives for appropriate purposes. Only when the annual volume of capital investments of the cooperatives is less than 50,000 rubles, can the funds be taken directly from the cooperative's clearing account in the State Bank (provided, of course, that the cooperative has excessive working capital).

The magnitude of the long-term loans issued by Torgbank to producer cooperatives is shown by the following figures: 1,661,000 rubles during the Second Five-Year Plan and 2,330,200 rubles during the three years of the Third Five-Year Plan (1938-1940) (see Finansirovaniye i kreditovaniye kapital 'nykh vlozheniy /Financing and Crediting of Capital Investments/, Gosfinizdat, 1941, page 189).

Measures designed to restore and further develop the activities of producer cooperatives and to achieve a maximum increase in the output of high-grade consumer goods during the postwar period have made serious demands on Torgbank in the matter of accumulating funds

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in its long-term credit reserves and carrying out control over the most effective use of the investment and working capital loans granted to cooperatives.

Torgbank grants long-term loans to producer and veteran cooperatives for their capital investments and working capital needs in accordance with the credit plan approved by the Council of Ministers USSR.

Long-term investment loans are granted to individual artels and unions by Torgbank's offices in accordance with the credit plan. Loan applications, which are presented by the title holders of the long-term credit funds, must list the name of the applicant; the name of the Torgbank or State Bank branch granting the loan; and an itemized list of the proposed capital investments and their amounts. Credit is allocated on the basis of these applications at the expense and within the limits of the reserves in the local long-term credit funds; when capital investments are to be financed from the applicant's own contributions (his special funds), the loans are granted within the limits of the payments of such funds into the Torgbank offices.

Before approval can be granted for loans for projects with an estimated cost exceeding 100,000 rubles, the applicant must submit to Torgbank the annual itemized lists, a copy of the general cost estimate and a certificate on the approval of designs and cost estimates. In the case of projects costing less than 100,000 rubles, the applicant must submit the itemized list, stating when and by whom the cost estimate of the technical design has been approved (this eliminates the need for submitting a separate certificate).

The procedure of approving annual itemized lists depends on the estimated cost of construction.

The construction, organization and expansion of producer cooperative enterprises producing consumer goods and foods from local or surplus state-owned raw materials or from by-products need only an abbreviated designs and estimates dossier (as in the case of local industrial enterprises) if the estimate cost of the project does not exceed 500,000 rubles.

The procedure of granting loans to cooperatives for capital investments depends on the construction method. In the case of contracted construction, Torgbank requires a copy of the contract agreement and funds are then granted in the usual manner: in the form of a 15-percent advance to the contractor and payment for completed parts of construction elements at the cost estimate rates. The equipment is usually paid for by the recipient of the loan, the cooperative organization itself. In the economic construction method, funds are also issued in the usual manner: on the basis of individual outlays or, in the case of above-limit projects, on the basis of completed work.

Cooperative organizations have the right to purchase construction materials and equipment produced by local and cooperative industry at the established sales prices.

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Incidental small construction outlays are covered by small advances, the disposition of which must be reported by the loan applicants to the Torgbank offices at least once a month. If the bank finds that these small advances have not been used for their specified purpose related to construction, say, for the payment of wages, it may withhold further advances and call for the return of previously granted and misused amounts.

The funds issued by Torgbank to the artels are usually not credited to their clearing accounts in the State Bank, except when the basic operations of an artel supply materials and render transportation and other services to the project.

Above-limit projects carried out by the economic method are managed by a chief of construction (or of the capital construction department), who is the recipient of the bank's advance (following the procedure stated in Chapter X).

When approving the credit, the Torgbank offices require, in addition to the cooperative charter (registered by the financial organ), the power of attorney and the signature samples, the borrower's obligation, for which the amount is fixed after the completion of construction and the granting of the funds; that amount also appears in the statement drawn up by the Torgbank offices that accompanies the obligation and constitutes a component of the loan obligation. The payment terms on investment loans are fixed by the titleholders of the local long-term credit funds in accordance with the amortization schedules, the operation conditions of the new project, the financial position of the borrower and the payment schedules of previous outstanding loans. The maximum term for investment loans granted by Torgbank to cooperatives is eight years. In certain cases, the payment terms may be extended by agreement between the producer cooperative council and the head office of Torgbank. Payments are usually due on a quarterly basis. The interest set by the government on such Torgbank loans varies from one to 2 percent a year. Except for commission fees designed to replace the outlays of the bank, the interest is credited to the central long-term credit fund of the bank.

With a view to stimulating capital investments, the Torgbank offices follow the course of construction and the utilization of the loans. If the borrower makes no use of the credit within a month after it has been granted or if in the course of two months he uses up less than 40 percent of the quarterly allotment, the Torgbank office may call back the unused credit unless the titleholder of the local credit fund takes measures to speed up the construction project. Both the borrower and the titleholder of the credit fund must be notified in advance of any decision to call back unused credit.

In addition to its preliminary control functions at the time the credit is approved and granted, Torgbank also carries out subsequent control by analyzing the audits of the artels and unions making on-the-spot investigations.

It should be noted that capital investments of less than 500,000

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rubles a year are handled as part of the balance of basic operations of the artel. These balances, as well as reports on the fulfillment of the capital construction plan with explanatory notes, must be submitted to Torgbank once a month.

Capital investments exceeding 500,000 rubles a year are accounted for on a separate balance sheet, which must be submitted periodically to Torgbank together with the plan fulfillment report (Form 6-b) and explanatory notes.

The Torgbank offices may impose the usual incentives and sanctions (see Chapter XX) on both cooperative projects and contractors working for cooperatives.

One of the major functions of Torgbank is the scheduled recovery of granted loans. The total amount of loan payments is set in the Torgbank credit plans approved by the Council of Ministers USSR. The cooperatives make their loan payments from their clearing accounts in the State Bank. The Torgbank office starts the payment procedure by forwarding the borrower's payment obligations to the appropriate State Bank office some time before the loan payment is due. Actual payment by the State Bank is made either upon the borrower's payment instructions or on the basis of the documents forwarded by Torgbank. If the borrower's clearing balance is insufficient to cover the payment on the loan, the unpaid remainder may be recovered later in the established order of priority. Higher interest may be levied on overdue loan payments.

This then is essentially the procedure of granting and extinguishing loans issued by Torgbank for cooperative capital investments from long-term credit funds on the basis of instructions from the titleholders of those funds.

In the rare cases when capital investments of cooperative artels and unions are financed by clients, who pay these funds to Torgbank in the form of specified deposits (see Chapter V), the loans are still issued under the usual control procedures in strict accordance with the instructions of the client organizations.

If the artel's investments are financed from its own funds deposited in Torgbank for that purpose out of excessive working capital, then the funds are issued by the bank in the usual manner and under the established control procedures. However, after the construction project has been completed, the granted amount is not regarded as a scheduled loan, but is merely debited from the special deposit account, the unused balance of which is then returned to the depositor, the cooperative organization itself.

Nonrepayable loans are also granted to construction projects that serve a cooperative system as a whole, for example, the construction of scientific, educational and cultural institutions, and in some cases construction of an industrial nature that is of system-wide importance. The financing of such projects is planned at the expense and within the limits of the appropriate financing sources under the usual bank control

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procedure.

2. Crediting of Producer and Veteran Cooperatives for the Replenishment of Their Working Capital and Fixed Capital

The organization of new cooperative artels, unions and crafts and their expansion requires not only capital investments but also the creation or increase of working capital. The working capital norm of state enterprises and organizations originates in profits, with the remainder being made up by nonrepayable budgetary allocations. The working capital of producer cooperatives, on the other hand is replenished or organized is also made up of profits, with the remainder of the minimum norm being made up by funds from the long-term credit fund of the appropriate cooperative system. This working capital is furnished on a repayable basis in the form of long-term loans, and sometimes short-term loans (as will be shown below), issued by Torgbank upon the instructions of the titleholder of the long-term credit fund. These loans are granted in accordance with Torgbank's government-approved credit plan, which lists separately the credit volume allocated to the replenishment of working capital.

Long-term loans are usually granted in connection with a substantial increase in the activities of the cooperatives, the organization of new crafts, the formation of new artels and unions, and as a result of damage caused by natural calamities. Loans may be granted to going concerns that, according to the financial plan approved by a superior agency, lack the funds necessary to make up the working capital norm based on their production program or their retail trade plan.

While the titleholders of the long-term credit funds authorize the Torgbank branch to issue loans to the given cooperatives, the latter must submit their balance-sheet reports with annexes, their annual financial plans and the calculations showing their loan requirements. Torgbank checks these documents and in some cases carry out on-the-spot inspections.

As a result of their investigations, the Torgbank offices may offer suggestions designed to regularize the finances of the artels and unions, making the granting of the loans contingent upon the prompt elimination of shortcomings in financial discipline. If the bank finds neglected accounts, the absence of a balance-sheet as of the 1st of the month preceding the granting of the loan, a insolvent balance, or systematic losses and immobilization of working capital, no loan is granted. If the balance is found to be insolvent, the bank must first of all consider the question of granting a loan to return the cooperative to solvency, and only then the question of replenishing its working capital. Nor are loans granted for the replenishment of working capital if the cooperative is unable to cover losses with its own funds.

The amount of the long-term loan to be granted to cooperatives on instruction of the fund titleholder is calculated as the difference between the available working capital and the norm as reported in the last balance-sheet, but not exceeding the lacking amount of working capital based on the annual financial plan. Let us illustrate this.

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According to the last reported balance-sheet, the artel's own working capital, loans granted to replenish the working capital and the stable liabilities make up 250,000 rubles, while the norm in this particular case is 285,000 rubles. In this case the lacking amount of working capital is 35,000 rubles.

If according to the annual financial plan of the artel, the working capital at the end of the year is planned to be 30,000 rubles short of the norm, then the loan granted for the replenishment of working capital should amount to 35,000 rubles, of which 30,000 rubles are to be paid back in subsequent years and 5,000 rubles must be paid back during the current year as a short-term loan.

Newly created artels may receive loans for the replenishment of working capital within their first three months merely on the basis of certified calculations drawn up on the basis of their production program. Trading organizations of producer cooperative systems that get credit in the State Bank on the basis of their trade turnover can be granted loans for the replenishment of working capital in the amount necessary to insure their own planned capital contribution in the trade turnover.

Long-term loans for the replenishment of working capital are granted by Torgbank at 2 percent interest a year for not more than 5 years and are extinguished on a quarterly basis as the borrower's funds increase once again. The first loan payment is due not earlier than three months after the issuance of the loan. The payment schedules are set by instructions from the titleholder of the local long-term credit fund. The procedure of making payments on loans for working capital is similar to the procedure adopted for investment loans.

In addition to these long-term loans, producer cooperatives may also apply to Torgbank for short-term loans to cover a shortage of working capital in the course of the year. These loans are granted if according to the financial plan the lack of working capital in the course of a quarter is greater than that planned for the end of the year or when the financial plan does not provide for a shortage of working capital and such a shortage does occur in any given quarter. If the shortage of working capital in the course of the year is due to deficit operations or an immobilization of funds, no loans are granted for the replenishment of working capital.

Loans for the stated purpose are granted when the available working capital is less than the established norm. However, a cooperative artel may lack its own working capital altogether, a situation that occurs when its own working capital and loans received for capital investments and the replenishing of working capital are insufficient to cover the non-circulating assets. In that case, the organization needs first of all funds to replenish its fixed capital to restore solvency.

Loans for the fixed capital of artels are granted by Torgbank on the basis of petitions. These petitions must be accompanied by an audit for the preceding year, the balance-sheet for the preceding month, a copy of the current year's financial plan, a certified calculation

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of the loan requirements, and a certificate listing the capital investments made during the current year. All these documents must be carefully examined before a loan is granted. No loans for fixed capital can be granted if the accounts have been neglected or when the artel's own funds are insufficient to cover its losses.

The amount of the loan should usually be sufficient to restore a solvent balance under the terms of the annual financial plan. The issuance of such a loan is usually associated with the granting of a loan designed to replenish the organization's working capital up to the norm level. Loans for the replenishment of fixed capital are extinguished as the borrower is once again creating surplus working capital. Payments are arranged on the basis of the final balance-sheet for each year, but must not extend over more than 10 years. If the balance of the artel briefly becomes insolvent in the course of a year and the financial plan provides for solvency to be restored by the end of the year out of internal resources, then the artel may receive a short-term loan to cover the temporary insolvency irrespective of whether a long-term loan has been granted for the replenishment of the fixed capital.

Loans designed for the replenishment of working capital and fixed capital are credited to the clearing accounts of the cooperatives in the State Bank and may not be used for capital investments. If such loans are used for capital investments, the amounts thus misused may be recalled before they are due.

With a view to restoring the credit standing of artels that lack the necessary funds to make up for losses suffered in previous years, Torgbank was given the right in 1950 to grant special loans without interest to such organizations. Such loans are issued upon the instructions of the titleholder of the local long-term credit fund within the limits of the annual government-approved credit plan for not more than 10 years with extinction adjusted to the borrower's gradual formation of working capital. If in the course of the year following the loan the artel still does not manage to operate without losses, Torgbank may with the permission of the Councils of Ministers of the union republics demand recovery of the granted loan.

3. Crediting of Capital Investments by Consumer Cooperatives

All capital investments of producer cooperatives are financed from long-term loans granted by Torgbank. Most of the capital investments of consumer cooperatives, on the other hand, are financed from the repair and construction funds that the consumer cooperative system deposits in the State Bank (see Chapter V). If these funds prove to be insufficient in some lower links of the cooperative system, say, village cooperatives, the superior consumer cooperative unions may grant them six-month to 3-year loans out of their own repair and construction funds. These loans are credited to special accounts of the village cooperatives that are reserved for the repair and construction of trade premises.

Torgbank grants loans to consumer cooperatives only for major

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capital investments slated by the state plan. These loans are granted from repair and construction funds transferred to Torgbank or from unused funds in the long-term credit reserves of the consumer cooperative organization.

Such loans are granted for not more than 10 years with payments starting one year after the crediting of the construction project has been completed. Payments on loans are made in the same manner as in the case of producer cooperatives.

In some cases money from the funds reserved for the capital investments of consumer cooperatives are granted by Torgbank on instructions of Tsentrosoyuz [Central Consumer Cooperative Union] on a nonrepayable basis.

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CHAPTER XVIII

LONG-TERM CREDITING OF INDIVIDUAL HOME CONSTRUCTION AND OTHER UNDERTAKINGS

1. Crediting Individual Home Construction of Workers and Employes of Enterprises

The problem of improving the material and cultural well-being of the working people of our country is closely linked with the improvement of their housing conditions.

In addition to state construction of urban and industrial workers' housing, the state is also rendering assistance to workers, engineering and technical personnel, employes and collective farmers who wish to build their own homes. One of the major types of aid is the long-term credit granted to workers, employes and collective farmers at favorable terms.

Long-term home loans are planned by the annual state plans and are granted through Tsekombank (the Central Municipal Bank), local municipal banks and Sel'khozbank.

Tsekombank loans are based on the plans of industrial ministries and the local Soviets of working people's deputies. The amount of credit to be granted is listed annually in the credit plan of Tsekombank, which breaks down the credit by industrial ministries. Within these limits, each ministry distributes the credit among its industrial enterprises and accordingly informs Tsekombank.

The home loans are granted to workers and employes through their enterprise. Relationships between the enterprise and the loan-issuing bank are based on a contract agreement. Home loans are granted up to 10,000 rubles for 7 years with equal quarterly payments starting in the quarter after the completion of construction. Construction by the borrower must be completed within one year of the issuance of the loan.

Both the amount of the loan and the payment terms may be increased in certain cases by special government decisions.

Home loans are granted at 2 percent interest a year, with the interest being paid at the time of the regular loan payment.

The credit granted by Tsekombank is distributed by the management of the enterprise in cooperation with the factory committee. The credit regulations provide that the home loan borrower must cover at least 30 percent of the cost of construction out of his own funds. This contribution may be either in the form of cash or the labor of the borrower or members of his family.

The enterprise furnishes to the bank a list of the workers and employes to whom loans have been granted, listing the amount of the loan for each borrower. Each borrower, in turn, must furnish to the bank through the enterprise a certificate on the piece of land that has been allotted to him for his home construction and a statement of his loan obligations (in the established form). The statement must list: the

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standard design and the building schedule of his home; the amount of living space in the home and any outbuildings; the total cost of construction and the amount of his own contribution; the date of the first loan payment and the subsequent payment dates; insurance of the home and the outbuildings (for at least the amount of the loan) and so forth.

When the loan is granted, the bank requires that the home and its outbuildings may not be sold before the extinction of the loan and so informs the appropriate notary offices. These notices sent to the notary offices have the force of a lien on the property built with the bank's loan.

The home loans granted by the banks are designed to meet the housing requirements of workers employed in industrual enterprises. If the borrower quits his job or is dismissed because of infractions of labor discipline, the following procedure goes into effect.

If the borrower's own contribution plus the part of the loan that has already been repaid make up at least 50 percent of the cost of construction, then the borrower retains ownership of the home, but must extinguish the balance of the loan within six months. If the balance of the loan is not repaid within that time, ownership of the home is transferred to the enterprise, which must then pay the remaining balance of the loan and within three months reimburse the worker or employe for his home-building outlays.

If the borrower has paid less than 50 percent of the construction of the home, he loses ownership of the home. In this case also, the home passes to the enterprise, which must complete payments on the loan and within three months reimburse the worker or employe for his outlays on the home.

If the worker or employe leaves his job under circumstances beyond his control (army draft, transfer to another job, disablement and so forth), then no change in the loan conditions takes place, he remains owner of the completed home and continues his loan payments as originally listed in his obligation statement.

The bank must insure the specified utilization of home loans and therefore institutes control over course of the construction itself. Since cash loans can easily be misused for other purposes, the credit regulations provide that the borrower gets at first a 10 to 15 percent advance, with subsequent parts of the loan issued on the basis of the actual fulfillment of construction.

If the borrowers are able to purchase all the materials required for the construction of the home in a single lot and require funds in excess of the 10 to 15-percent advance, the bank will issue the needed amount, but only against the documents that confirm the actual outlay (bills for the purchased materials and so forth).

The municipal banks do not grant loans directly to the borrowers, but through the enterprise in which they are employed. Before a loan

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can be approved, the administration of the enterprise must inform the bank of the funds previously received for loans, the loans actually paid to borrowers and the unused balance. Each enterprise must moreover furnish a monthly loan accounting to the bank, listing the following information for each borrower: name, first name and patronymic; number of loan obligation; amount of loan; amount issued to the borrower during the reported month and the cumulative amount issued since the start of construction.

On the basis of these reports of the enterprise, the bank verifies the proper disposition made of the credit and makes an on-the-spot investigation (of the enterprise as a whole and of individual borrowers). If the bank uncovers misuse of credited funds, it may demand the immediate return of the loan, and may raise the interest from 2 percent to 12 percent.

The bank is required to insure the scheduled completion of each home-building project. The enterprise is expected to furnish to the bank so-called building-completion acts within 15 days of the end of construction. These acts must list the technical inspection data regarding the new home, including the nature of the building materials, the size of the home, the number of rooms, the available living space, fencing, outbuildings, quality of the outbuildings, and so forth.

If the construction of the home is not completed on schedule, the bank is expected to urge on the enterprise and the borrower the prompt completion of construction.

A major part of the bank's functions in the home-loan field is the control over the scheduled repayment of loans.

According to the contract between the bank and the enterprise, the enterprise is expected to insure the scheduled payment of the loan by the borrower. The enterprise has the right to levy 4 percent interest on overdue loans.

A simplified procedure of granting loans has been set up for workers and employes of lumbering, timber-floating and auxiliary enterprises of the Ministries of the Lumber and Paper Industry, Railroads and the Metallurgical Industry, and enterprises of the gold and platinum industry. In those cases, the municipal banks handle all loan transactions with the enterprises, which submit the loan payment obligations and extinguish the loans granted irrespective of the status of the transactions with the workers or employes. These borrowers in turn handle their transactions only with the enterprise, submitting to them their own payment obligations and making their regular payments on the loans.

Home loans of workers, employes and specialists employed in state farms, machine-tractor stations, machine-tractor repair shops and other rural state enterprises are financed by Sel'khozbank, which uses the same procedure as the municipal banks in the case of industrial workers.

The amount of long-term credit that can be granted to these rural home builders is set by the annual credit plan of Sel'khozbank. This

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plan provides a distribution of the credit by ministries that have jurisdiction over state farms, machine-tractor stations and repair shops and other agricultural enterprises. On the basis of the distribution of these ministries Sel'khozbank then passes the credit limits on to its republic, oblast and kray offices and down to the local bank branches. Like the municipal banks, Sel'khozbank grants the loans to the individual borrowers through their place of employment. The amount of the loan may vary from 5,000 to 15,000 rubles for up to 10 years at 2 percent interest a year.

2. The Procedure of Granting Credit to Enterprises for Construction of Homes to be Sold to Workers and Employes

A major part of the credit plan of Tsekombank is taken up by the crediting of enterprises, projects and institutions for the construction of homes that are to be sold to their workers, employes and specialists. Such homes are built on the basis of standard designs within fixed estimated cost limits.

Before the bank can grant such credit it requires the following documents from the enterprise: a list of homes under construction listing their cost and types; deed for the piece of land allotted for the construction of the homes; copies of contracts if the construction has been contracted out or copies of the instructions to the capital construction department if such construction is handled by the economic method. The enterprise must also submit an obligation statement in the established form, listing: the number of homes and their completion schedules; within what period (at most a month) the homes are to be sold and at what price; the manner in which the loans are to be used up and extinguished and so forth.

The loans are granted in the form of an advance of 15 percent (for contracted construction) and 30 percent (for construction by the enterprise itself) of the total cost of the homes to be built during the current year. Subsequent parts of the loans are issued on the basis of work completed by the contractor or by the capital construction department of the enterprise itself. Payment is made against acts of acceptance of completed homes or the following types of partial completion: earthwork, foundations and plinth; walls; rafters and roof; ceilings, floors and inter-floor partitions; windows and doors; oven (including foundation and pipes); outside and inside finishing work.

When payment is made for completed work, the bank withholds a certain percentage of the previous advance from each amount charged for completed work.

If the enterprise is setting up prefabricated homes for sale to the workers and employes, the loan is issued in the form of payment of the suppliers' bills for the prefabricated house sections. The remaining amount of the loan provided by the cost estimate for the assembly of the house is paid to the enterprise against acts of acceptance of the assembled homes, but within the limit of the government-approved cost estimate of the homes.

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Loans are granted for the period required to build and sell the homes at one percent interest a year. The loan is extinguished with: the cash proceeds of the sale of the completed home; the down-payments of the purchasers if the home is bought on installments; and the payment obligation of the purchaser, drawn up in the name of the loan-issuing bank.

If the loan is not extinguished on schedule, the enterprise must nevertheless pay the bank the outstanding balance of the loan even if the homes have not been sold.

The completed homes may be sold on an installment basis within the limits of the state plan. The installment plan provides for payments during 2 to 3 years with a cash down-payment of at least 20 percent of the purchase price. The remainder is paid in regular installments through the enterprise within a maximum 3 years and at 2 percent interest.

The purchaser may occupy the home only after the down-payment of 20 percent in cash and after having submitted the installment payment obligation in the name of the loan-issuing bank. As in the case of loans for individual homes, the bank by appropriate notices to the notary offices prohibits the resale of the home before the loan has been repaid.

The purchaser assumes full ownership of the house only after the bank loan has been extinguished or, in the case of a cash purchase, after the full payment has been made.

If the purchaser fails to meet two regular installment payments, the enterprise is required to ask for a court order canceling the sales contract, dispossessing the purchaser and calling for compensation for losses suffered. Homes thus repossessed must be sold to another worker or employe under the regular conditions or the enterprise must pay the bank the outstanding loan payments that the purchaser owed on his installment plan.

If homes built by enterprises with Tsekombank credit are occupied prior to their sale or if they are not completed within the fixed construction schedule, the bank has the right to recall the loan granted to the enterprise.

3. Crediting Individual Home Construction and Capital Repairs at the Expense of the Credit of Local Soviets

The credit plan of Tsekombank provides credit for individual home construction through local Soviets. This credit is intended for issuance to workers, employes and specialists of enterprises that are not covered by credits extended through industrial ministries, to soldiers and officers discharged from the Soviet Army, disabled veterans, families of dead warriors, partisans, and families of men in service.

On the basis of the government-approved credit plan of Tsekombank, the Councils of Ministers of union republics distribute the credit

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among krays, oblasts, autonomous republics and cities and allot the credit to the corresponding municipal banks.

In contrast to the crediting procedure in the case of industrial ministries, home loans granted through local Soviets are issued directly to the borrowers. This requires a high degree of organization and orderly accounting on the part of the municipal banks.

The home loans are issued by the municipal banks within the assigned credit limits. The loans are granted on the basis of lists approved by the city and rayon housing administrations (in cities) or settlement Soviets (in settlements).

During the process of drawing up these lists the bank makes certain that loans are being allotted to those working people who really need them and at the same time are in a position to pay off the loan with the terms called for by the regulations.

At the time the loan is granted, the borrowers must furnish to the municipal bank the usual obligation statement listing the conditions of the loan and the payment schedule. The rest of the loan procedure is the same as in the case of the industrial ministries except in all transactions, such as the granting of the loan, the submission of the obligation statement and the making of payments, the borrowers deal directly with the bank.

Loans to discharged officers and soldiers, disabled veterans, families of dead warriors, partisans and families of men in service are granted on favorable terms, including larger loans, longer terms and lower interest.

The credit plan of Tsekombank also provides for loans for the capital repair of homes. These loans are also granted on the basis of lists drawn up by the city, rayon, and settlement Soviets.

After the usual obligation statements have been approved, the municipal bank issues capital repair loans upon the borrower's request. At first 50 percent of the loan is issued, with subsequent amounts following on the basis of the borrower's needs for his capital repair outlays.

As in the case of home loans, one major requisite for the granting of capital repair loans is the borrower's own contribution. In the case of capital repairs, the borrower is expected to contribute at least 30 percent of the total cost, either in money or in labor, including that of members of his family.

One requirement in capital repair loans is that the home not be sold before the extinction of the loan. The bank accordingly informs the notary's office of the loan that has been granted. Another requirement for capital repair loans is fire insurance in the amount of the loan. In case of fire, the insurance payment for the balance of the loan payment must be paid to the bank.

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The bank ascertains the specified utilization of the loan. If the bank finds any misuse of funds, the bank may recall them immediately and levy up to 12 percent interest on the misused amount (as in the case of home loans through industrial ministries).

The bank is also responsible for the maintenance of the payment schedules. Four percent interest may be levied on overdue payments and if payments are more than six months overdue, the bank may ask for a court order requiring payment of the entire balance of the loan payments.

4. Loans Granted to Workers for the Purchase of Livestock

In some cases, on the basis of special government decisions, Sel'khozbank grants long-term loans to industrial workers for the purchase of livestock. The loans are up to 3,000 rubles for a three-year term with payments starting three months after the issuance of the loan.

Loans of this type are granted to workers whose names appear on a list compiled by the management of the enterprise in cooperation with the factory committee, and submitted to Sel'khozbank. The list includes detailed data regarding the borrower (name, first name and patronymic, occupation, average monthly wage), the type of livestock purchased, the time and place of the purchase, approximate cost, and the amount of the loan desired.

The loans are issued to the enterprise, which in turn passes them on to the individual borrowers. The borrowers in turn submit their payment obligation statements to the bank through their enterprise.

Loan payments are also made through the enterprise, which is responsible for the scheduled installment payments to Sel'khozbank.

The Sel'khozbank offices in turn check on the specified utilization of the loans and their scheduled payments.

5. Loans to the Rural Population for the Buildings of Homes and Livestock Purchases

The credit plan of Sel'khozbank provides for long-term loans to collective farmers for the building of homes, the moving of homes and outbuildings to new settlements, and for the purchase of cows and heifers.

These loans are granted within the limits set annually in the credit plan of Sel'khozbank.

Since the war, home loans have been granted to collective farmers chiefly in areas that had been occupied by the enemy. These loans are up to 10,000 rubles for up to 7 years at 3 percent interest.

The loan procedure in this case differs considerably from the granting of loans to industrial workers because the bank deals directly with the collective farmers, who are moreover scattered through many villages.

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The credit operations must therefore be designed to establish the credit needs of the farmers and maintain loan-granting and payment transactions by mail.

If a farmer wishes to obtain a home loan, he makes his application directly to the Sel'khozbank office that serves his rayon. The application must list the address of the borrower, the name of his collective farm, the purpose of the loan and the amount desired, the name of the village where the home is to be built or rebuilt, the scheduled construction time, and the volume and approximate cost of the construction.

The application must be accompanied by a petition of the farm management supporting the application for a loan. That petition should list the number of labor-days worked by the applicant within a certain period of time, his functions in the collective farm, and the property that he owns.

The application must also be accompanied by a certificate of the village Soviet allotting a piece of land to the applicant for the building of his home. If the home is to be rebuilt, then the village Soviet's certificate must list the type of work required.

The Sel'khozbank offices, after having examined the application and judged it on its merits, forward it with their comments to the rayon executive committee. The ultimate decision on a loan to a collective farmer thus rests with the rayon executive committee.

Upon receipt of the loan list approved by the rayon executive committee the bank proceeds to issue the loan.

Each collective farmer must submit a statement of his payment obligations, stating the payment terms and other loan conditions (the completion of the construction within one year, compulsory fire insurance, prohibition of sale prior to the complete repayment of the loan, and so forth).

The actual loan is granted on the basis of the needs arising in the course of construction. An advance of 15 percent of the loan is issued, with subsequent amounts based on acts confirming the progress of construction that are drawn up on the spot by representatives of the bank (or upon the bank's request by tax agents of the rayon financial department), employes of the village Soviets or representatives of the collective farms.

Similar loans are granted by Sel'khozbank to teachers, doctors, agronomists, veterinarians, and assistant veterinarians, employes of budget-financed offices, and discharged soldiers and officers who live in rural areas.

These loans are granted for from 5,000 to 10,000 rubles for terms from 5 to 10 years. Loans are granted within the credit limits on the basis of lists approved by the rayon executive committee.

Loans are granted to the listed specialists upon receipt of their

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credit applications. The application must be accompanied by a petition from the institution where the specialist is employed and a certificate stating his occupation and salary.

When collective farmers move from one rayon to another, the state grants them long-term loans through Sel'khozbank for the building of homes, the purchase of livestock and other acquisitions. In a number of cases, part of the building of the home is financed by the state.

Home loans and capital repair loans are at first granted to a collective farm for 9 months. Within that time the farm must build or repair the homes and transfer them to the new settlers together with the loan payment obligations.

Home loans are granted by Sel'khozbank on the basis of the actual progress of construction. At first the bank grants an advance of 20 to 25 percent of the total cost of construction for the purchase of construction materials, payment for means of transportation and other outlays. Thereafter funds are issued within the cost estimate limits on the basis of bills for completed work accompanied by acts confirming the inspection of the completed construction work. The advance is then withheld from the new payments in proportion to the cost of the completed work.

If the homes are being built by a construction organization, the bank issues the funds on the basis of the contract agreement concluded between the collective farm and the contractor. The funds are then issued on the basis of payment instructions from the farm asking for the issuance of the contracted advance to the contractor, with subsequent payments being made against the contractor's bills for completed work accompanied by acts confirming completion of parts of the project.

After the construction of the homes and their outbuildings have been completed they must be transferred to the new settlers. The transfer is certified by an act of a commission consisting of the chairman of the village Soviet, the chairmen of the farm's administration and review commission, and a representative of the appropriate Sel'khozbank office.

The transfer act, drawn up in triplicate (for the settler, the farm and the bank), must state the condition of the home and its outbuildings, the actual cost of the home and the quality of construction.

Having received its copy of the transfer act, the bank proceeds to transfer the loan obligation from the farm to the settler. The amount of the transferred loan must not exceed the estimated cost of the home. If the actual cost exceeds the estimated cost, the farm must pay the difference to the bank.

In connection with the transfer of the loan, the settler submits to the bank his obligation statement pledging payment of the loan within the fixed terms. The amount of the loan is then debited to the settler's account and credited to the farm's loan account.

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When the bank issues loans for capital repairs of homes to be transferred to new settlers, the farm must submit to the bank a report on the nature and cost of the required repairs and the decree of the rayon executive committee transferring these homes to the settlers.

The bank then gives the farm an advance for 70 percent of the repair cost, with the remaining 30 percent following upon completion of the repairs and certification by the village Soviet. The homes and the loans are then transferred to the new settlers in the same manner as newly built homes.

The farm may also use bank loans to purchase homes for the new settlers from private persons or organizations, but in that case the price of the home may not exceed the cost assessed for insurance.

The usual loan conditions apply to home loans transferred from the farm to new settlers: compulsory insurance of the home; prohibition of sale prior to repayment of the entire loan and so forth.

Loans for the purchase of livestock are also granted through the collective farm. At first these loans are granted to the farm for two months, in the course of which the farm must purchase the stock and hand it over to the farmer.

Stock-purchase loans are issued either in cash or against the suppliers' bills, depending on the method of purchase.

Upon receiving the loan, the farm must give the bank a list of the settlers for whom the stock is being purchased. That list must be accompanied by statements from the settlers' previous village Soviets certifying that the settler does not own any livestock.

When transferring the stock to the settlers, the farm draws up a transfer act or transfer lists and receives from each settler a statement pledging repayment of the loan within the fixed terms. On the basis of these payment obligations, the Sel'khozbank office then transfers the livestock loans to the settlers' accounts.

In those cases where part of the cost of the new homes is covered by a budgetary appropriation, the bank proceeds as follows in transferring the loan from the farm's to the settlers' accounts: It arranges for the appropriate part of the farm's debt to be covered by the amount allotted from the budget and transfers the rest of the debt to the settlers' accounts.

The granting of loans to settlers involves considerable work to insure scheduled payments of the loans. That work must be organized in the same manner as in the case of home loans directly to collective farmers.

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CHAPTER XIX

THE FINANCIAL AND CREDIT PLANS OF THE LONG-TERM INVESTMENT BANKS

1. General Characteristics of the Financial and Credit Plans of the Long-Term Investment Banks

The long-term and short-term credit operations of the investment banks are based on financial-credit and credit plans that are a component of the national economic plan.

The financial-credit plans list: the volume and the nature of long-term credit granted chiefly to collective farms, cooperatives and individual borrowers, as well as for capital investments of local industry and other purposes; the volume and nature of short-term credit granted to contractors, municipal enterprises and the main administrations of ministries, enterprises and construction projects for settling import transactions; the sources used by the banks for their long-term and short-term credit.

The volume and nature of nonrepayable financing of capital investments are not listed in the financial-credit plans.

The financial-credit plans of the investment banks are based on the production and financial plans of the credited organizations. For example, in planning the long-term credit for collective farms the bank bases itself on the production plans of the farms and the planned capital investments as well as the income and outlays estimates. Long-term credit to cooperatives is planned on the basis of the capital investment and the financial plans of the cooperative organizations. Short-term credit, in particular to contractors, is based on the planned volume of construction-installation work, the movement of the remainders of construction materials and other supplies and so forth.

The planning of credit sources is also based on financial plans and on data regarding the turnover of payments. For example, the planning of the remainders of funds of collective farms in their investment accounts (an increase or a reduction of funds) is based on the farms' income and outlays estimates. The planning of the balance of funds in the clearing accounts of contracting organizations, and other (for example, municipal) enterprises and organizations whose clearing accounts are kept in the investment banks, is based on the turnover of payment and clearing transactions of these organizations.

The financial-credit plans are not merely passive reflections of the production and financial plans of the economic organizations; on the contrary, in the process of drawing up and implementing these plans the banks actively influence the economic processes. For example, in planning (and then in controlling the implementation of the plans of) the balance in the investment accounts of collective farms, the bank requires the deposit of all money receipts in the indivisible fund accounts, the deduction of the indivisible fund contribution in the amount called for by the Farm Charter, the thrifty expenditure of funds only for purposes envisaged by the production plans and the income and

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outlays estimates in accordance with the requirements of the Charter and the decisions of the general farm meetings, and so forth. This kind of planning affects the economic development of the collective farms and insures an increase in the collectivized holdings.

Experience has shown that the resources at the disposal of Sel'-khozbank, Prombank and Tsekombank are insufficient to cover all their credit requirements, and the balance is therefore financed from the budget. It is quite clear therefore how important is the proper and fullest utilization of all resources at the disposal of the banks.

The long-term credit plans of the investment banks are drawn up on an annual basis with a quarterly breakdown, while the short-term credit plans are drawn up for each quarter. In the Tsekombank system, the short-term credit plans are also drawn up for the entire year with a quarterly breakdown. However, when either the short-term or the long-term credit share is relatively small, a single financial-credit plan is drawn up. In Prombank, for example, where long-term credit (to local industry for increased output of consumer goods) plays a relatively minor role, a single financial-credit plan is drawn up each quarter, including both long-term and short-term credit. In Torgbank, where the short-term credit share is small, a single annual credit plan is drawn up.

In practice therefore, the following system of financial-credit plans has developed in the investment banks: in Sel'khozbank -- an annual financial-credit plan for long-term credit and a quarterly plan for the short-term crediting of contracting organizations; in Tsekombank -- an annual combines long-term and short-term credit plan; in Torgbank -- an annual credit plan and quarterly plans for the short-term crediting of contracting organizations; in Prombank -- quarterly financial-credit plans, including both short-term and long-term credit.

2. The Financial-Credit Plan of Sel'khozbank

The major function of the financial-credit plan of Sel'khozbank is the long-term crediting of collective farms. The credit plans are based on the national economic plan, the plans for the development of collectivized livestock holdings, afforestation, irrigation, rural electrification and the plans for the development of certain branches of agriculture.

In accordance with the three-year plan for the development of collectivized livestock holdings the largest amount of credit has been allocated to undertakings designed to insure the increase and qualitative improvement of the livestock herds and the construction and mechanization of livestock farms.

In fulfilling the goals of the Stalinist plan of the transformation of nature, the collective farms are also doing a large amount of work in the planting of forest shelter belts, for which a large amount of credit has been allotted. Large amounts of credit have also been allotted to rural electrification measures, and the credit plans also provide for the expansion of industrial and subtropical crops, melioration

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and irrigation, fruit and vine cultivation.

The financial-credit plan of Sel'khozbank also reflects loans to individual borrowers, particularly home loans to collective farmers, disabled war veterans, and workers, employes and specialists living in rural areas. The plan also provides a reserve that can be used by Sel'khozbank for long-term credit in excess of the amounts provided for individual purposes. The plan also lists the credit balance that Sel'khozbank is expected to have at the end of the year.

The financial-credit plan lists the sources to be used for long-term credit and all expected payments on loans previously granted by Sel'khozbank. The total amount of impending payments is calculated on the basis of the expected outstanding debtor indebtedness at the start of the plan year and the payments scheduled to be made in the course of that year.

Another credit resource of the bank is the potential increase in the indivisible money funds of the collective farms in their Sel'khozbank accounts. The bank bases its calculation on the expected balance of these funds at the start of the plan year and the payments due during the plan year. If the plan envisages an expenditure of funds from the farm accounts exceeding the planned receipts, then the outlays section of the credit plan must list a reduction in the balance of the farms' indivisible funds. After all credit sources have been determined, the bank calculates the expected balance of available funds at the start of the plan year.

We have noted above that the sources at the disposal of Sel'khozbank usually are not sufficient to cover the credit needs and that the state budget is used to cover the balance of the requirements.

After the bank has surveyed all the credit sources at its disposal, it calculates the amount required from the budget.

A typical form of the financial-credit plan of Sel'khozbank follows:

/See FINANCIAL-CREDIT PLAN OF SEL'KHOZBANK next page/

The head office of Sel'khozbank receives draft plans from its offices in the union republics, oblasts and krays.

The financial-credit plan of Sel'khozbank is submitted for examination to the Ministry of Finance USSR and is then submitted for approval to the Council of Ministers USSR after having been examined by the State Planning Committee and the Ministry of Agriculture USSR.

After government approval, the head offices communicates the annual credit limits to its offices. The latter draw up annual credit and loan payment plans with a breakdown by oblasts, krays and autonomous republics and submit them to the Councils of Ministers of the union republics for approval. The annual credit plans by autonomous republics,

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FINANCIAL-CREDIT PLAN OF SEL'KHOZBANK

Source of Funds	Amount	Purpose of Funds	Amount
1. Funds available at the start of the plan year		1. Long-term credit	
		including:	
2. Loan payments		(a) collective farms	
3. Rise in the balance of the farms' indivisible funds in their investment accounts		(b) resettlement	
		(c) home loans to collective farmers	
4. Other sources		(d) home loans to workers, employes, and specialists in rural areas	
5. Budgetary contribution		(e) reserve	
		2. Funds available at the end of the plan year	

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oblasts and krays with a breakdown by rayons are then drawn up by the appropriate bank branches and submitted for approval to the Councils of Ministers of autonomous republics and the kray and oblast Soviets of working people's deputies. The rayon branches of Sel'khozbank then draw up the annual credit plans for collective farms within the credit limits assigned to each rayon. The rayon plans are based on the credit applications of the farms and the production plans of the rayon farm departments. The credit applications in turn are based on the production plans of the farms and their income and outlays estimates. The rayon bank branches are required to grant the credit to the collective farms within two days after the approval of the credit plans by the rayon executive committees.

3. The Credit Plan of Torgbank

The credit plan of Torgbank is based on the goals set by the national economic plan in the matter of the further development of cooperative activities, the expansion of production and an increase in the fixed capital with a view to better serving the needs of the population.

In contrast to the Sel'khozbank plan, the Torgbank credit plan usually plans the crediting of cooperative organizations from the cooperatives' own funds without the contribution of budgetary appropriations.

Torgbank grants long-term credit for capital investments, and for replenishing the working capital and the fixed capital of co-

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operative organizations.

The credit plan is based on the financial income and outlay plans of the cooperative systems (including producer cooperatives, woodworking cooperatives and disabled veteran cooperatives). These plans contain the basic production indicators (value of gross output and market output, expenditure of raw materials, supplies, fuel and so forth), which in turn determine the norm and the total amount of required working capital and the profits expected in the course of the plan year.

The credit plan further lists in detail the receipts and expenditure of the cooperatives by individual items and sources, including in particular: profit deductions (nonrepayable deductions into the long-term credit fund, income tax deductions and so forth); the cooperatives' own funds and the equivalent funds in circulation; the capital investment plan with a listing of financial sources.

In checking and analyzing the financial plans of the cooperative systems, Torgbank must make certain that they take account of all income sources and that the profit deductions have been properly calculated in accordance with the norms set by the government. Torgbank also verifies the calculation of the working capital norm and the total requirements in funds, since these calculations determine the amount of credit to be supplied by Torgbank.

In addition to the profit deductions into the long-term credit funds, Torgbank can also use payments on previous loans as a credit source. Torgbank calculates the impending loan payments on the basis of the summary financial plans of the cooperative organs at the republic level and on the basis of reports received from its branches.

The credit plan also envisages the use of the surplus working capital of the cooperative organizations. While there are cooperatives that are short of working capital, others accumulate surpluses in working capital. These surpluses are used first of all to pay off all outstanding loans; in the absence of such obligations, the surplus working capital can be directed into capital investments within the limits envisaged by the plan. Surpluses that are to be used for capital investments are deposited in special Torgbank accounts, which are then used to finance the investments of the given organization.

Surplus funds are also deposited in Torgbank by those organizations that have no outstanding loans and require no investment funds. These deposits can be used by Torgbank together with the long-term credit fund as a source for crediting other organizations. The outlay section of the credit plan in that case envisages the return of these special deposits to the cooperative organizations.

The Torgbank credit plan separately lists funds due on outstanding loans from consumer cooperatives.

Another source listed in the credit plan is the profit of the bank itself and interest on loans granted from the long-term credit fund.

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On the basis of the planned resources, the bank then plans their utilization for the appropriate purposes in the outlay section of the plan. The major part of the section is taken up by loans for capital investments and the replenishing of the working capital or cooperative organizations.

Loans are planned for new construction, reconstruction, the purchase of equipment and other supplies in accordance with the investment plan approved for the cooperative systems.

A major share of the credit plan is taken up by loans for the replenishing of working capital of cooperative organizations. Cooperative organizations with insolvent balances may also receive loans for the replenishing of fixed capital.

Torgbank also grants short-term loans (up to one year) for the replenishing of working capital from the deposits of cooperatives that have surpluses of working capital. Such loans are granted within the limits of the norms to bridge gaps within the year, arising particularly when the cooperative starts new consumer goods items and expands existing production lines, thus requiring more working capital, or when the cooperative sets up auxiliary enterprises to provide its own raw material base.

No matter how carefully credit needs are assessed in the credit plan, additional fund requirements inevitably arise in the course of the implementation of the plan. The Torgbank credit plan therefore provides a reserve that may be used for such additional needs with the permission of the Council of Ministers USSR.

A typical form of the Torgbank credit plan follows.

CREDIT PLAN OF TORGBANK

Sources of Funds

1. Balance in the correspondence account at the start of the year

Receipts from Cooperatives

2. Deductions into the long-term credit fund:

   from producer cooperatives
   from woodworking cooperatives
   from disabled veteran cooperatives

3. Loan payments:

   from producer cooperatives
   from woodworking cooperatives
   from disabled veteran cooperatives

4. Deposits of working capital surpluses

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from producer cooperatives
from woodworking cooperatives
from disabled veteran cooperatives

5. Loan payments of consumer cooperatives

6. Interest collected on loans from the long-term credit fund

7. Bank profits

8. Other receipts

Purpose of Funds

1. Financing of capital investments:

producer cooperatives
woodworking cooperatives
disabled veteran cooperatives

2. Credit for the replenishing of working capital

producer cooperatives
woodworking cooperatives
disabled veteran cooperatives

3. Refunding of deposits to consumer cooperatives

4. Payment of profit deductions into the budget

5. Refunding of special deposits to cooperative organizations

6. Reserve

7. Balance in the correspondence account at the end of the year

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The Torgbank credit plan is subject to approval by the Council of Ministers USSR after examination by the Ministry of Finance USSR.

Together with the Torgbank credit plan the Council of Ministers USSR also approves the planned receipts and utilization of the local and republic long-term credit funds of each cooperative system (producer, woodworking and disabled veteran cooperatives) by union republics, as well as the planned receipts and utilization of the centralized long-term credit funds of the producer cooperatives and the disabled veteran cooperatives. These plans list: on the income side: receipts of nonrepayable deductions into the long-term credit funds; interest on the long-term credit funds; repayment of loans previously granted from the centralized long-term credit fund, and the balance in the funds at the start of the year; on the expenditure side -- the granting of loans for the replenishment of the republic long-term credit funds; a reserve and the balance at the end of the plan year.

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4. The Credit Plan of Tsekombank

Tsekombank has annual plans for long-term and short-term credit.

In their constant concern for the material well-being of the working people, the party and government are devoting special attention to the construction and restoration of housing. In addition to the major housing effort financed by state enterprises and the executive committees of Soviets of working people's deputies, an increasing amount of individual home construction is being financed with long-term state loans.

A key section of the Tsekombank credit plan is therefore devoted to home loans in cities and workers' settlements in accordance with the plans of ministries and agencies and local Soviets, as well as to the construction of homes for sale to workers, employes and specialists. In addition, the Tsekombank plan also lists long-term capital repair loans to local Soviets, individuals and municipal enterprises.

The credit needs for home loans to workers and employes of enterprises and organizations are based on plans submitted by the corresponding ministries and agencies. In compiling these plans, the ministries and agencies in turn base themselves on credit applications submitted by the enterprises, which list the number of workers and employes desiring home loans and the amount of credit required.

Using the state plan goals for the development and expansion of production and the related increase in the labor force, the ministries and agencies also draw up credit requirements for the construction of homes to be sold to workers for cash or on installments. In contrast to individual home building, which is financed jointly by state loans and the borrower's own funds, the construction of homes for sale is financed entirely from Tsekombank loans.

The amount of credit required for the construction of individual homes and capital repairs is based on the plans of the local Soviets. On the basis of these plans, the local municipal banks inform the head office of their credit requirements, which include the expected fulfillment of the credit plan by the start of the plan year and the amount of credit planned for the plan year both for new construction and continuing construction. In examining the local Soviets' draft plans for individual home building and the related credit requirements, the municipal banks must bear in mind the need for a high degree of credit effectiveness and must make certain that the credit granted for home loans will actually speed construction and expand available housing.

On the basis of the draft plans submitted by the local Soviets, the municipal banks also calculate the long-term credit needs for capital repairs of municipal enterprises, hotels and housing.

The resources envisaged by the long-term credit plans of Tsekombank include first of all payments on loans previously granted, as well as available funds at the disposal of Tsekombank. Such unused funds

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may be listed in the long-term credit plan only to the extent that they are not required for short-term credit. If the long-term credit plan requires funds that have already been allotted to the short-term credit plan, the long-term credit plan must provide for the refunding of such funds (under the heading "Purpose of Funds").

All the sources listed above are insufficient to cover the credit requirements of individual home building, and the state is making up the balance from its budgetary appropriations.

A typical form of the long-term credit plan of Tsekombank follows:

LONG-TERM CREDIT PLAN OF THE TSEKOMBANK SYSTEM

Sources of Funds

1. Payments on long-term loans.

2. Payments on loans granted in 19.. for the construction of homes for sale on cash terms.

3. Payments on loans granted in 19.. for the construction of homes for sale on installment terms.

4. Appropriations from the union budget.

Purpose of Funds

1. Long-term loans for :

   (a) individual home loans within ministry and agency plans.

   (b) individual home loans within the plans of local Soviets.

   (c) construction of homes for cash sales.

   (d) construction of homes for installment sales.

   (e) capital repairs of individual homes.

   (f) capital repairs of municipal enterprises and the housing of local Soviets.

2. Reserve

3. Refunding of funds borrowed from the short-term credit reserve.

The short-term credit plans of Tsekombank list loans granted to municipal organizations and enterprises and contracting organizations.

In drawing up the short-term credit plan, Tsekombank makes use of the credit requirements submitted by the local banks, which in turn

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calculate the needs of municipal enterprises, housing and supply organizations on the basis of the financial plans and applications of the credited organizations. The credit needs include loans for: the seasonal accumulation of materials, particularly fuel; the bridging of the gap between capital repair expenditures and the receipt of the corresponding amortization payments, and other needs.

The credit needs of individual municipal enterprises and contracting organizations are determined by the banks on the basis of the production plans of the enterprises and organizations, their working capital norms and the need for speeding the turnover rate of the working capital.

Short-term credit sources are funds available in the clearing, current and special capital repair accounts of municipal enterprises, housing administrations and other enterprises and organizations in the municipal banks, with the balance being made up by budgetary appropriations.

Annual credit plans of Tsekombank for long-term and short-term credit are submitted by the Ministry of Finance USSR to the Council of Ministers USSR for approval. After approval, Tsekombank communicates the credit limits to its local municipal bank branches.

5. The Financial-Credit Plan of Prombank

In contrast to other investment banks, the financial-credit plan of Prombank is drawn up and approved for each quarter rather than for the year as a whole. The Prombank plan also differs from the other plans in its structure. While the Sel'khozbank, Torgbank and Tsekombank plans break down their credit operations into the loans to be granted and the payments on loans due during the plan year, the Prombank plan only lists the indebtedness limit planned for the end of each quarter on various types of credit. The different make-up of the Prombank plan is due to the dominance of short-term loans in Prombank operations.

The formulation of the financial-credit plan is preceded by the drawing up of the short-term credit plan of contractors for the purchase of construction materials, which breaks down this type of credit by ministries. This plan is drawn up on the basis of credit applications submitted by the ministries to the Prombank head office (organizations under republic and local jurisdiction, except for the RSFSR, submit these applications to the republic offices of Prombank). The credit applications of the ministries are in turn based on the production and financial plans of the construction organizations. The ministries break down their applications into credit for the seasonal purchase of materials required by the seasonal interruption in transportation and credit for the seasonal purchase of materials required by the seasonal construction peak, but the financial-credit plan of Prombank and the accompanying short-term credit plan combine these two types of credit into a single amount.

In addition to credit for the purchase of construction materials,

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the financial-credit plan also lists credit to be granted to contractors against bills en route and for the guaranteed payment of supplier bills. The amount of credit is planned by Prombank on the basis of available data on the outstanding indebtedness on these types of loans and data on impending deliveries of construction materials in accordance with the construction program of the contracting organizations.

In addition to its short-term credit operations, Prombank also grants long-term credit. Long-term credit is granted to local industry for the expansion of consumer goods production in accordance with the decree of the Council of People's Commissars and the party's Central Committee of 7 January 1941 (Izvestiya, 12 January 1941). The planned credit is based on the credit requirements reported by the republic and oblast (kray) offices. The statements list: the amount of credit required for the construction of carry-over and newly started items; data justifying the suitability of granting credit to this or that enterprise; the outstanding loans on which payments are due during the plan quarter. The local Prombank offices base these calculations on the local plans for the development of local industry producing consumer goods.

In addition the financial-credit plan also lists credit for the payment of imported goods and for other purposes.

The financial-credit plan also lists the credit sources. Since these sources are essentially the working capital of the bank itself, with the remainder being supplied from the budget, the main task in the drawing up of the financial-credit plan is the proper distribution of the bank's available working capital. The bank makes use of the balances in the clearing accounts of contracting organizations and construction projects that are being financed on the basis of work completed, the balances of letters of credit and special accounts and other funds available to the bank. The bank estimates possible changes in the balances in the course of the plan quarter, on the basis of payments for completed work credited to the contractors' accounts in accordance with their quarterly work program and on the basis of the planned expenditure of funds from these accounts for the purchase of materials, the payment of wages and so forth.

A typical form of the financial-credit plan of Prombank follows.

FINANCIAL-CREDIT PLAN OF PROMBANK
for the ... Quarter of 1950

Type of Credit	Amount	Credit Source	Amount
1. To Contracting organizations		1. Balance of funds in the clearing accounts of contracting organizations and other liabilities of the bank	
(a) for the purchase of construction materials			
(b) for bills en route			
		2. Funds of the union budget	

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(c) for the guaranteed payment of suppliers' bills

2. To client projects for the payment of contractors' bills

3. To ministries and agencies for the payment of imported equipment and materials for capital construction

4. To local industrial enterprises for the expansion of consumer goods industries

5. Balance of funds in the State Bank account

The financial-credit plan of Prombank and the accompanying short-term credit plan of contracting organizations for the purchase of construction materials is submitted by the Ministry of Finance USSR to the Council of Ministers USSR for approval. After approval, the head office of Prombank informs its branches of the credit limits of contractors for the purchase of materials and the credit limits of local industry for the expansion of consumer goods production.

Together with the short-term credit plans of Prombank, the Council of Ministers USSR also approves the short-term credit plans for contracting organizations that have their clearing accounts in Sel'khozbank and Torgbank.

6. Bank Control Over the Fulfillment of the Financial-Credit Plans

The tasks of the investment banks are not limited to the drawing up of the financial-credit plans and the communicating of the credit limits to the local branches. The banks also control systematically the fulfillment of these plans. The proper organization of such control determines to a large degree the effectiveness of the granted credit and the scheduled payment of funds used by the bank to maintain its credit operations.

The banks control the fulfillment of the financial-credit plans on the basis of periodic (quarterly, monthly) and annual reports submitted by their branches. These reports list the status of scheduled and overdue payments by types of loans and the receipts of funds in the form of loan payments and from other sources envisaged by the plans (deductions of funds into the indivisible funds of collective farms, the long-term credit funds of cooperative organizations and so forth).

On the basis of these reports, the banks make certain that loans are being granted only within the limits approved by the credit plan. If a large part of approved credit is found to remain unused, the bank seeks to establish the reasons for that situation: whether credit

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applicatiins were for amounts that exceeded the actual requirements or whether there has been any delay in the granting of credit as a result to a delayed breakdown of the credit plans by borrowing organizations (enterprises, collective farms, cooperative artels and so forth).

Of special importance is bank control of the scheduled loan payments within the amounts envisaged by the credit plans and the recovery of overdue payments. The existence of any overdue indebtedness indicates the poor financial condition of the borrowing organization and the need for proper measures to restore financial stability and insure the payment of the loans. With this in mind, the banks analyze the reports received from the borrowers, carry out on-the-spot investigations, work out the necessary remedial measures in cooperation with the borrower and supervise the implementation of such measures. The offices of Sel'khozbank check the income and outlay estimates of collective farms and see to it that these estimates include the funds required for the payment of loan installments.

Individual types of credit are listed in the financial-credit plans on the basis of their specified purpose. The banks must carry out systematic control of the specified utilization of the loans, making on-the-spot investigations and studying the reports of the borrowers. Of special importance is the check of the specified utilization of loans granted to individual borrowers.

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CHAPTER XX

ORGANIZATION OF THE CONTROL WORK OF THE INVESTMENT BANKS. FINANCIAL INCENTIVES AND SANCTIONS

1. General Tasks of Bank Control Work

The work of the investment banks in financing and crediting capital investments and handling the accounts relating to construction is closely linked with the control of all these operations. Financial control is designed to insure proper accounting in construction, the legitimacy of individual operations, the utilization of funds according to the approved state plan and agreement between the actual outlays and the approved estimated cost subject to the planned cost reduction.

This control is handled by the investment banks both in a preliminary and a subsequent manner. Hence we differentiate two types of financial control - preliminary and subsequent, both being directed toward the same purpose.

Preliminary control involves the receipt and check of the documentary prerequisites for financing and crediting (itemized lists, certificates on Form No. 6 and Form No. 3, credit limits and so forth), plan and operational documents (contract agreements, labor plans and so forth), statistical and bookkeeping reports (wage payment certificates, certificates confirming the existence of credited supplies and so forth), and accounting documents (bills for completed construction-installation, geological exploration and other work, bills for purchased materials and equipment, letters of credit and special accounts and so forth).

As we have noted above, the receipt and check by the investment banks of the basic prerequisites for financing -- capital investment plans, financing plans, itemized lists -- are designed to insure the utilization of funds according to the state's capital investment plan. The receipt of certificates on Form 6 confirming the approval of the technical designs and cost estimates and the check of the existence of these documents at the construction site are designed to insure the financing of work and outlays only for construction items that have approved designs and cost estimates.

The planned utilization of funds is also the reason for the check of contract agreements for construction-installation work and of Form 3 in case the construction is handled by the /so-called/ economic method.

Bank control of bills and acts for completed construction-installation work, the granting of advances for the purchase of basic construction materials and prefabricated parts and sections, and control of bills for the delivery of materials and services rendered should insure the proper and legitimate handling of transactions among clients (purchasers), contractors and suppliers.

On the other hand, the making of payments for completed construc-

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tion-installation work at the fixed rates with overhead charged at the established norms, preliminary control over the issuance of funds for the payment of wages within the limits of the approved funds and to the extent that the work program has been completed, control over the issuance of funds for the payment of salaries of administrative-executive personnel and the payment of bills for materials and equipment delivered and services rendered to the construction project at current prices, all these steps insure the projects' adherence to the estimated cost of construction and the fulfillment of the cost reduction plan.

Preliminary bank control, together with the check of the legitimacy and the amounts of funds paid from the accounts of the financed projects and the clearing accounts of contracting and geological organizations, thus insure fulfillment of the key objective of financial control over construction, and that is the utilization of funds according to plan and a reduction of construction costs.

Subsequent control involves an analysis and check of all plans, operational documents and reports received by the banks, and an analysis of all periodic and annual statistical and bookkeeping reports, as well as on-the-spot investigations of the economic operations of construction projects.

Both types of control are closely linked and supplement one another.

The results of preliminary control (the uncovering of overexpenditures of the wage fund or the administrative outlays, the existence of bills for work completed on items not listed on the itemized list or lack cost estimates and so forth) will give the proper direction to subsequent control work; on the other hand, conclusions drawn from an analysis of reports from the credited organizations can be used to limit or withhold funds for certain types of outlays at the following time of preliminary control.

In practice, both preliminary and subsequent control functions are handled by a single employe or group (department). Only in large branches do separate departments or groups handle such functions as the check of prices for materials and equipment or the check of acts for completed construction-installation work.

The data obtained in the course of subsequent control make it possible for the banks to become thoroughly familiar with the operations of contracting organizations and construction projects, including specific aspects of their work.

In the course of this study of the operations, the banks must check on the fulfillment of the state capital investment plan and the plan for the inauguration of completed construction items, the fulfillment of the cost reduction plan and the financial condition of individual projects and contracting organizations.

In addition to this analysis designed to study all aspects of the economic and financial operations of construction organizations, the banks also use the results of their control work in checking the opera-

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tional documents of their clients and estimating the indicators of the financial operations of projects.

Control methods, such as subsequent control of wage payment certificates on the basis of reported data, control of the certificates confirming the existence of credited supplies on the basis of balance sheets, checking the indebtedness of contractors on advances against their balance-sheet data, and so forth, constitute an organic and important part of the control work of the investment banks.

2. Organization of the Control Work on the Basis of Reported Materials

All projects, construction-installation and geological organizations and their superior agencies are required to submit to the investment banks statistical and bookkeeping reports, both periodically and annually.

Both types of reports are drawn up in accordance with instructions issued by the Central Statistical Administration (TsSU) of the Council of Ministers USSR and the Ministry of Finance USSR on the basis of the statistical and bookkeeping records that must be kept by the projects.

Periodic reports on the construction of the main ministries must cover the following points: fulfillment of the plans of capital investments, construction-installation work and the inauguration of completed items (Forms Nos. 20-cc, 21-cc, 22-cc, 26-cc); the effect of certain factors on the fulfillment of the construction-installation work program (Form No. 25-cc "Report on the Utilization of Construction Machinery" and Form No. 27 "Report on the Receipt and Consumption of Construction Materials"); labor and wages (Forms Nos. 26-cc and 29-cc); cost of construction (Form No. 28-cc); monthly balance sheet of capital investments and of the basic operations of contracting organizations (Forms Nos. 35-cc and 36-cc).

The annual report of projects and construction organizations must cover, in addition to the periodic topics, changes in the fixed capital, profits and losses, and the operations of auxiliary enterprises, and truck transportation and means of communications at the construction site.

The reports received by the investment banks from the projects and contracting organizations are then analyzed along various lines. In using the reported data in their current control work, the banks check the certificates and documents submitted by the projects, draw conclusions regarding the progress of construction, its cost, the financial status and turnover rate of the working capital, compare individual indicators in various reports to check the records at the construction site, draw up their conclusions and participate in annual meetings of the auditing commissions of ministries and agencies, and so forth.

This utilization of the reported data makes it possible for the investment banks to study the condition of the projects, assess certain operations and expenditures in terms of the fulfillment of the plan, and by imposing sanctions or offering incentives to affect the course of

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construction, the mobilization of internal resources and the elimination of infractions in cost estimating, planning and financial discipline.

Any analysis of the reported data is possible only if the appropriate forms have been completely and properly filled out. The banks must therefore check periodically on the submission and the proper execution of the reports. A systematic struggle for high quality of reporting is also the best way of insuring the proper keeping of records by the project itself.

Of major importance is the statistical-economic processing of the reported data, the keeping of tables for individual indicators of the operations of projects and accumulating such indicators for a number of years. The keeping of tables of indicators expressing the progress of construction, the cost of the work and the financial position of the projects facilitates the analytical work and makes it possible to get the required data without additional work.

Analysis of the economic operations of projects on the basis of their reported data covers the following aspects:

(1) fulfillment of the plan of construction-installation work and other types of work and the inauguration of completed items;

(2) the effect on the fulfillment of the plan of the proper organization of labor, the operations of the construction machinery and the supply flow of basic construction materials;

(3) the cost of construction as a whole, by types of operations and by outlay elements;

(4) factors affecting the cost of construction;

(5) fulfillment of the financing plan of the project and its financial condition;

(6) the working capital, its turnover rate, the profitableness and transactions of contracting organizations.

The operations of each construction project and each contracting and geological organization are judged first of all in terms of the fulfillment of the state plan of capital investments, construction-installation work and other types of work. Therefore the analysis of operations starts with a study of the fulfillment of the plan.

For projects and construction organizations the plan sets the annual volume of capital investments or construction work with a breakdown by types of work (construction, installation, equipment, installation of equipment, purchases and other types of work); by purpose of project (industrial, housing and so forth); by method of construction (contracting, economic); by construction sites and by construction items.

The reports contain data on the fulfillment of the capital investment plan with the above breakdown, and in the case of contractors

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with a breakdown by construction and installation work completed by the contractor itself and by subcontractors. This makes it possible to assess the fulfillment of the plan as a whole and within its parts and at the same time to determine: which organizations fulfill and overfulfill their plans and which ones lag behind; whether secondary work is being fulfilled at the expense of key items; or whether the plan is being overfulfilled at the expense of the acquisition of equipment.

Assessment of the fulfillment of the plan of inaugurating completed construction items yields the final result of the operations of construction projects and is a major part of the analysis of the reported data. Only after completed items have been put into operation does the level of fixed capital rise and the output of production increase.

The reported data on the fulfillment of the plan of inaugurating completed items must include data on the changes in the balance of incompleted construction items that still await inauguration (data taken from the audit sheet Form No. 35-cc).

The reported data on plan fulfillment are used by the banks in their control work to verify the following data: the amount of construction-installation work completed during the month; the wages paid to workers; the fulfillment of the construction and inauguration plans; the issuance of bonuses to administrative-executive personnel of projects and contracting organizations. These data are also used in the calculation of the unused remainder of the cost estimate limit of certain construction items.

The fulfillment of the capital investment plan is affected by a large number of factors related to the organization of the construction work. However the existing system of reporting on labor includes only the main factors: the number of workers in basic and auxiliary construction work; turnover of the labor force; an accounting of working time; fulfillment of the output norms and the plan for the average daily output per worker in money terms.

Comparison of all these indicators with the plan indicators makes it possible to determine the effect of labor organization on the fulfillment of the plan. These factors include: the number of workers compared with the planned labor force; the actual output per worker compared with the planned output; the number of days worked per worker during the month; the total number of man-days, actual and planned, and so forth.

Of major importance both in speeding and improving construction and in fulfilling the plan is the mechanization of labor-consuming operations, the introduction of the most modern types of machinery and their proper utilization in construction. The periodic reports reflect the degree of mechanization and the operations of the machines compared with the plan. Analysis of data on the utilization of machinery enables the banks to determine how the construction organizations are fulfilling the instructions of the party and government of achieving maximum mechanization and industrialization of construction methods.

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The supply of basic construction materials to the projects is described in Form No. 27-cc, which lists the actual amount of materials received and the consumption of materials and prefabricated parts compared with the norms.

Another factor in the assessment of the operations of construction projects is the fulfillment of the plan for the reduction of capital construction costs, which is set in percent of the approved estimated cost of construction.

The data in Form 28-cc make it possible to analyze the fulfillment of the cost reduction plan both for the completed work as a whole and for individual parts.

However, a full assessment of the fulfillment of the cost reduction plan also requires analysis of outlays by elements (wages, materials, overhead, and so forth).

Data on the outlays for wages and salaries and on overhead expenses are given in Forms Nos. 26-cc and 28-cc.

Outlays for wages are compared with the approved wage funds and the volume of completed construction work. This makes it possible to uncover any absolute or relative overexpenditures or economies and to determine the effect of these outlays on the cost of construction.

Overhead outlays are compared with the norms corresponding to the volume of completed construction work and this makes it possible to determine overexpenditures or economies, in particular for administrative expenses, which make up the largest overhead.

As was stated in preceding chapters, the investment banks carry out preliminary control of the estimated cost of production when issuing funds for wages, paying bills for materials, equipment and so forth. A continuation and organic part of this control function is the analysis from the reported data of the actual outlays for construction compared with the estimated cost of the construction as a whole and its individual operations and outlay elements.

Such an analysis makes it possible to determine deviations from the cost estimate, to make on-the-spot investigations of the reasons for such deviations and to take appropriate measures in cooperation with the projects and their superior agencies.

The reported audit sheet lists the amounts received by the project in the way of financing and the disposition made of these funds. The listed data can be used to construct a table showing the relationship between funds received and expended, particularly in terms of the completed volume of work. Such a table when supplemented with planned indicators gives a clear picture of the fulfillment of the plan for the mobilization of internal resources, both material and monetary.

Study of the materials and monetary items of the audit also makes it possible to judge how planning and financial discipline was main-

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tained.

Special attention in the analysis of the audit must be devoted to the components and amount of working capital and its turnover rate. Systematic control of the turnover rate of funds is a major part of the control functions of the bank.

Study of the financial condition of the construction organizations is one of the most important tasks of the control work of the investment banks. Attention must be devoted particularly to the status and the make-up of the working capital and its turnover rate.

In participating in the national patriotic movement to speed the turnover rate of working capital, the contracting organizations have pledged themselves to speed the turnover of their funds and thus release large amounts for the needs of the state.

The turnover rate of funds reflects the status of the supply reserves and the proper and timely handling of transactions. The audit sheet lists the data necessary for any analysis of these aspects of the operations of the contractors.

The audit sheet is also the basic document for a whole series of bank control operations, such as checking the guaranteeing of loans with material reserves, advances to contractors for the purchase of construction materials and prefabricated construction sections, and so forth.

The annual audit is analyzed in the same manner, but in greater detail and including the operations of auxiliary enterprises, trucking and other communications. Additional reports list the status of the fixed capital and profits or losses.

The results of the analysis of periodic and annual audits are used by the banks both for operational control in the process of financing and crediting construction projects and for subsequent on-the-spot checks of the operation as a whole or of its parts.

The analytical data can be presented in the following form: special tables with appended comments; written report, including the results of the study of the reported indicators; suggested measures designed to eliminate any shortcomings, or other documents containing conclusions and suggestions.

The results of the analysis of reported data are also used by the banks to raise questions regarding the progress and cost of construction with the appropriate superior agencies and local authorities.

The results of the analysis of the annual audits are drawn up in the form of a detailed written report, since they serve as basic reference material for the annual meeting of the auditing commissions.

The checking and analysis of annual reports is a responsible and laborious task that the investment banks must fulfill each year in

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assessing the operations of construction projects and contracting organizations and in summarizing the results of their own control work.

3. Make-Up and Organization of the Control Work on the Basis of Investigations of Construction Projects and Contracting Organizations

The indicators listed in periodic and annual reports encompass the basic and most important aspects of the operations of projects and contractors! However, such reports cannot provide an exhaustive explanation of any deviations from the plan.

Detailed and specific study of the projects and verification of the reports can be achieved only by on-the-spot investigations, which are the most effective means of subsequent bank control. Investigations do not replace analysis of reports and are an independent financial control method, supplementing the results of the analytical work.

Analysis of reports constitutes an essential part of the preliminary work of on-the-spot investigations. Only as a result of such analysis can the banks outline the aims of the impending on-the-spot investigation.

Planning documents submitted to the banks and entries in the financing and clearing accounts are studied and generalized in the course of the financing and crediting process. This body of information is supplemented by the periodic audits listing the progress of construction, the inauguration of completed construction items, and the cost and financial condition of construction.

The objective of the on-the-spot investigation depends on the conclusions derived from the analysis and generalization of the control work data and the periodic audits.

An on-the-spot investigation must be contingent upon: a clear and specific formulation of the purpose of the investigation, derived from the available data on the state of the construction project; a program and working plan, stating what specific questions are to be investigated, the amount of work involved and the time allotted; the composition of the inspection group by occupations and skills (economists, bookkeepers, engineers, and so forth); the time limit for the investigation.

The on-the-spot investigation involves the following operations: checking the reported data by comparing them with the bookkeeping and statistical records at the construction site or with the physical results (inspection of the work and so forth); study of operational documents (correspondence and others); study of primary records; inspection and estimate of material reserves and installations; checking and recording of means of transportation and machinery at the project site; talks with workers and administrative personnel designed to obtain facts that are not reflected in records and documents; checking of clearing documents and records from the point of view of the legitimacy of the expenditures and their proper recording.

Materials and facts established in the course of the investigation

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must be confirmed in the form of documents and acts signed by the responsible persons. For any infraction of cost-estimate and financial discipline, the specific guilty parties must be identified and the extent of their responsibility determined.

In the course of their investigations of projects and contracting organizations, the investment banks must maintain close ties with public and party organizations.

The investigative task is not limited merely to the uncovering of shortcomings and infractions in the course of construction and its financing. The investigators must also study the achievements of the project in the financial field and, by analyzing them, apply the positive results to the financial operations of other projects.

We have stated above that investigations, unlike analyses of reports, deal chiefly with primary documents and facts and thus supplement and expand the analyses.

Investigations make it possible, in particular, to establish reasons for wage overexpenditures. Such reasons may be:

(a) Payment for work that must be rejected because of incorrect design or improper supervision.

(b) Payment for idle time due to poor work organization (lack of materials, power, transportation, tools; breakdowns and so forth).

(c) Payment in excess of the norm because of unusual working conditions, overtime, use of highly-skilled labor for work that could be done by less skilled labor, and so forth).

(d) Infractions of wage norms and payment rates.

It follows that such reasons can be established only as a result of the careful study of instructions given to the workers, the daily work record and other documents, and through personal talks of the investigators with workers and supervisors. The specific purpose of such investigations is to work out specific recommendations designed to improve the construction work and reduce its cost or study any advanced working methods for application to other construction items. Each investigation must therefore result in practical suggestions based on all the data accumulated in the course of the analysis and the investigation.

The final stage of each investigation, and consequently of a successive series of analyses, is discussion of all the results with the supervisors and workers of the construction project.

4. Use of the Analytical and Inspection Data for the Summary Analytical Work of the Banks

The data obtained in the analysis of the periodic and annual reports of projects and contractors and in the course of investigations

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(both general and specific) are used mainly to work out measures designed to improve the course of construction, reduce its cost and strengthen its financial condition.

Depending on their importance, such suggestions are submitted to ministries, main administrations, the projects and contracting organizations themselves or to the local Soviet authorities.

The implementation of these recommendations is also supervised directly by the banks. The analytical and investigative work can be considered completed only after the suggestions have been implemented and the original shortcomings have been removed.

The analytical data are also used by the head offices or branches of the investment banks to summarize the operations of a certain branch of the economy or of the banks' clientele as a whole. Data may be summarized for a certain branch of the economy (by ministries, main administrations or central institutions) or for a certain topic (to work out general problems of the economics of construction and its financing).

The data regarding the operations of projects and contractors that the investment banks accumulate in the course of time serve as the basis for recommendations to the government designed to improve the state of construction and its financing and to improve the financial management of construction and contracting organizations.

Coordination of the operations of individual bank offices with regard to their analytical work is achieved in quarterly summary plans that outline the checking and investigative work to be performed in projects or groups of projects.

This analytical work, when performed according to a combined plan within a fixed time limit, yields valuable data for assessing the state of the construction industry and its parts.

Independently of such over-all coordination, individual bank branches and oblast offices may also work out their own summaries and recommendations for presentation to the local Soviet authorities.

This economic summarizing work, using thedata of individual projects and contracting organizations, is performed in the investment banks by the planning and economic departments if it applies to general construction and financing problems, and by the industrial departments if it applies to specific branches of the economy.

5. Financial Incentives and Sanctions

The investment banks have been given the right by law to reward well-operating projects and construction organizations and impose sanctions on organizations guilty of infractions of financial discipline and mismanagement in construction.

Such rewards and sanctions must not be confused with the banks' refusal to grant certain funds or withholding funds for certain types

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of outlays as a result of the exhaustion of the appropriated amounts, the failure to meet financing requirements and so forth.

The very complexity of the study of all aspects of the operations of projects that must precede the granting of incentives or the imposition of sanctions gives special significance to the analytical and investigative work of the investment banks.

Before any financial incentives can be granted to projects and contracting organizations, the latter must have: fulfilled and overfulfilled the capital investment plan in terms of volume; fulfilled the plan for the reduction of construction costs; properly organized their financial operations.

Incentives for good work may take the following forms:

Projects may be given the right upon overfulfillment of the quarterly plan of obtaining financing in excess of the quarterly plan, though still within the annual appropriations, and of obtaining short-term loans at the expense of impending payments of their own investment contributions when guaranteed by their main administrations.

Construction organizations may, in accordance with their needs as a result of the overfulfillment of the plan, be granted higher short-term credit limits for the seasonal purchase of construction materials made necessary by seasonal transportation conditions or a seasonal construction peak.

Interest of short-term loans may be cut in half.

Projects that overfulfill their plan thus obtain funds to cover their additional outlays. Similarly, contractors are paid for completed work from additional financing sources, and greater needs for construction materials are met by additional favorable credit terms.

The heads of the investment banks and municipal banks have the right to stop the financing of projects that have been found guilty of mismanagement in the form of overexpenditures in excess of the cost estimates, large and systematic overexpenditures on certain types of outlays and overstocking of supplies.

Mismanagement can be uncovered and clearly demonstrated only as a result of thorough analysis and on-the-spot investigation.

Investment banks may not impose sanctions merely on the basis of their analysis of records without backing up their conclusion through an on-the-spot investigation.

A ten-day notice of any impending sanctions must be given to the superior agency of the construction project. The purpose of the ten-day warning is to enable the head of the superior agency to take immediate remedial measures and thus avoid the sanctions.

The notice of impending sanctions must contain the grounds for

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that step and outline the measures that the bank regards as essential for the elimination of the mismanagement.

Sanctions may be removed and financing resumed only upon the receipt by the bank from the superior agency of a detailed plan and specific measures designed to eliminate the mismanagement.

Depending on the seriousness of the mismanagement, the banks at the time of the imposition of sanctions so inform the local party and Soviet authorities, and if necessary call for court action against the guilty parties.

Both rewards and sanctions imposed by the investment banks must be formulated as an order listing all the circumstances and reasons that led to their imposition.

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CHAPTER XXI

RELATIONSHIPS BETWEEN THE LONG-TERM INVESTMENT BANKS AND THE STATE BANK. MUTUAL SERVICES AMONG THE LONG-TERM INVESTMENT BANKS

1. Distribution of Clearing and Control Functions between the State Bank and the Long-Term Investment Banks

Branches of the investment banks are found only in areas of concentrated capital construction. Some of the enterprises, organizations and collective farms engaged in capital construction must therefore be financed and credited through the State Bank by means of instructions issued by the investment banks.

The investment banks have agreed to cooperate with one another. On the basis of that agreement the offices of one bank finance the clientele of another bank upon instruction. However, this type of cooperation has not become widespread and most of the transactions of the investment banks in areas without investment bank branches are handled through the State Bank agencies.

There are three types of relationships between the State Bank and the investment banks.

In a place that has an investment bank branch, the State Bank office opens a correspondence account for the funds of the given investment bank branch. The State Bank then handles all cash transactions and clearing operations affecting the correspondence accounts of the investment banks (except the municipal banks). The clearing operations of the organizations financed and credited by the investment banks and financial control of these organizations are however handled by the investment banks themselves.

In places that have no investment bank branches but do have agents or inspection groups of investment banks, the State Bank handles both cash and clearing transactions of the clients of the investment banks. However, both preliminary and subsequent control are handled by the investment bank agents or inspection groups.

In places that have neither investment bank branches nor agents or inspection groups, the State Bank offices handles not only cash and clearing transactions of the investment bank clients, but also part of the preliminary and subsequent control functions.

The State Bank branches handle the nonrepayable financing of the capital investments of state enterprises on instructions of the investment banks, as follows: cash and clearing transactions upon presentation of the bills of the financed organizations; subsequent control at the time the bills of these organizations are submitted for payment; certain subsequent control functions, when the required check relates to the responsibilities of the State Bank offices.

The State Bank offices do not carry out control in the sense of investment bank control, especially as regards the analysis of re-

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ports submitted by the clients and on-the-spot investigations. That part of the work is still handled by the appropriate investment bank branches.

Nor is preliminary control handled to the fullest extent by the State Bank. Therefore the investment bank branches that issue payment instructions to the State Bank offices are still responsible for a check of the State Bank operations insofar as they relate to the financing and crediting of investment bank clients and must render the necessary assistance in matters of control.

2. Collection of the Investment Contributions of State Enterprises and Organizations

The contributions of organizations that are being financed through State Bank offices on instructions of the investment banks are paid directly into subcorrespondence accounts of the investment banks within the limits of the financing plans.

The organizations must submit to the State Bank office monthly statements containing the amount of the amortization and profits. These statements are made out in duplicate, one copy going to the investment bank and the other to the State Bank. The statement gives the State Bank the right to ask for forcible payment of the amortization and profit deductions in case of overdue payments.

In the same way the State Bank is able to insure the scheduled payment of other planned investment contributions derived by the economic organizations from the sale of surplus property, the sale of incidental production of minerals and so forth.

Also credited to the subcorrespondence accounts of the economic organizations are appropriations from the local budget and funds recovered from debtors and from the sale of supplies.

All other funds, including funds in excess of the amounts listed in the investment bank instructions (according to the financial plan), are transferred to the investment banks and are not credited to the accounts of the economic organizations.

3. State Bank Control Procedures and Forms Used in Nonrepayable Financing on Instructions of the Investment Banks

The State Bank office opens a so-called subcorrespondence account to each organization financed on instructions of the investment banks. This account contains the funds allocated to the economic organization by the financing plan.

Financing from thesubcorrespondence account begins by order of the investment bank. It is contingent upon receipt of the following prerequisite documents: (1) a copy of the general cost estimate or, in appropriate cases, copies of the cost estimates for individual construction items; (2) the certificate confirming approval of the technical designs and their cost estimates or, when appropriate, the

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preliminary cost estimates; (3) the itemized list. The State Bank offices check these documents only with respect to form and completeness and then forward them to the investment banks.

The investment banks check these documents thoroughly as if they handled the financing of the projects directly.

In the case of contracted construction work, the State Bank offices must get a copy of the annual contract agreements and any special contract conditions plus a list of the contracted work stating the volume of work for each item in money terms and the unit rates of the approved cost estimate.

The contract agreements and any special conditions are forwarded to the investment banks for a check and analysis, while the State Bank retains the work list and the unit rates for control purposes.

On the basis of the contract agreements, the State Bank offices issue advances to the contractors for the purchase of construction materials and prefabricated construction parts and sections. However, the State Bank does not open any special advance account, and instead credits the advance to the contractor's regular clearing account.

For purposes of control of the disposition made of the advance, the State Bank makes use of a certificate submitted by the client project, listing the amount of contracted construction work, the amount of the advance (in percent and in absolute terms) and any outstanding indebtedness of the contractor on previous advances. A record of the amounts paid out is then kept by the State Bank in a special file.

Bills for completed construction-installation work are paid by the State Bank in the usual manner.

The State Bank offices must verify whether the work included in the acceptance acts had been envisaged in the contracted work list appended to the contracted agreement and whether the cost of the work was based on the unit rates of the cost estimates, in the case of construction work, and on current rate books, in the case of installation work. The State Bank further checks whether amounts paid on intermediate bills have been deducted in the bill that accompanies the acceptance acts, and whether the appropriate partial return payment of the advance has also been withheld. All other control functions are handled by the investment banks on the basis of the documents forwarded by the State Bank and the periodic reports received from the clients. Any operational orders resulting from the investment bank check are then communicated to the State Bank for execution.

In the case of construction projects using the so-called economic method, the investment bank determines the financing method to be used (on the basis of individual outlay elements or on the basis of work completed) and accordingly informs the State Bank office.

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When financing is based on the work completed by the project, the State Bank opens a subcorrespondence account to the director of the enterprise under construction or the existing enterprise and a subclearing account to the chief of construction (or of the capital construction department). The titleholders of these two accounts are responsible for their respective operations and all bills presented for payment to the State Bank must indicate the account from which payment is to be made.

The State Bank offices are also responsible for the proper payment of funds from the subcorrespondence and subclearing accounts of projects that are being financed on the basis of work completed.

When financing of such projects is approved, the State Bank gets a list of the work (in duplicate) to be handled by the economic method, which must be signed by the director of the enterprise (existing or under construction) and by the chief of construction (or the capital construction department) and must be accompanied by the unit rates given in the approved cost estimate. The work list and the unit rates furnish the basis for transactions relating to completed work between the director and the chief of construction and for control of these transactions on the part of the State Bank.

The second copy of the work list is forwarded to the investment bank for analysis and check against other documents that guide the financing of the given project. Any results of that check are communicated to the State Bank for its information and appropriate action.

When making payment for completed work against acts submitted by the chief of construction, the State Bank office checks the work against the planned work list and verifies the cost of the work on the basis of the unit rates for construction and the installation book rates.

The State Bank gives the chief of construction an advance for the creation of working capital on instructions from the director of the enterprise and without checking the calculations.

The verification of the amount of the advance and all preliminary and subsequent control functions are handled by the investment banks.

In the case of projects that are being financed on the basis of individual outlay elements, the State Bank uses the subcorrespondence account to pay for materials, equipment and other supplies and for the wages and salaries of workers and employes.

When making payments from the subcorrespondence accounts of construction projects, irrespective of the method of financing, the State Bank does carry out some preliminary control over individual operations. For example, bills for construction materials and equipment are paid by the State Bank only upon verification of prices and surcharges.

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The investment banks are expected to supply the State Bank with price books for basic materials and equipment and with data on approved surcharges. In addition, the State Bank offices are expected to obtain price and rate books for materials that are being supplied locally and for which prices are set on a local basis.

The State Bank offices verify the prices and surcharges of materials and equipment only in the locality of the purchaser.

In making payment to construction organizations for wages, the State Bank offices are guided by approved labor plans, which must be supplied by the organizations in duplicate. One copy is forwarded by the State Bank to the investment bank, which is responsible for the analysis of labor plans. In the way of control over the issuance of funds for wages, the State Bank offices keep a special record of the approved wage fund and the amounts actually paid for wages. Part of the control functions of the State Bank are periodic on-the-spot checks of the wage payment certificates from the point of view of the correctness of the amounts and their agreement with the bookkeeping data. In addition the State Bank also checks systematically on the specified utilization of any cash payments.

The State Bank informs the investment banks of the results of its control measures and at the same time takes remedial measures to eliminate any infractions.

The State Bank offices carry out a number of other control measures of construction project transactions, whether of the contract or the economic type. When paying for geological exploration work, for example, the banks see to it that the outlays allocated to this purpose do not exceed the appropriations shown in the annual itemized list. When paying for administrative outlays and the maintenance of the office of the director of the enterprise under construction, the banks see to it that such outlays do not exceed the annual limit. For purposes of control, the projects are expected to indicate on the reverse side of their payment instructions or bank checks the unused balance of the limit or of the appropriation in the itemized list. In the case of out-of-town transactions, the project must submit a separate certificate of the unused balance within the time limit allowed for acceptance.

Contracted geological exploration work is paid by the State Bank on submission of the annual contract agreement for such work and the appended approved payment rates. Geological work is paid for on the basis of special acceptance acts calculated at the contracted unit rates. Copies of the contract agreements with the unit rates are forwarded to the investment banks for checking and analysis.

The State Bank offices are also responsible for transactions between the basic operations of an enterprise and its construction project.

Projects that are being financed by order of Torgbank can get advances for minor outlays from the State Bank in the form of cash

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(the amount of such cash advances being at the discretion of the head of the State Bank office. At least once a month, such projects must submit a report signed by the chief of construction and the chief bookkeeper, accounting for the expenditure of such cash advances. On the basis of these reports, the State Bank determines whether the expenditures were justified and whether the correct prices were paid for purchased materials.

In the case of the construction subdivisions of trusts that use the mutual clearing system, the State Bank upon notification by the appropriate investment bank transfers to it any funds to be credited to the account of the mutual clearing bureau.

The State Bank offices are expected to keep the investment banks informed of any infractions of financial discipline and mismanagement at the construction projects.

4. The Credit Operations of State Bank on Instructions of the Investment Banks.

All investment banks have in common the crediting of contracting construction-installation organizations for the purchase of construction materials, fuel and fodder for seasonal needs and for capital repairs of construction machinery.

The State Bank offices take over these operations on instructions of the investment banks and within the limits communicated by these banks. Without the limit information, the State Bank can grant only guaranteed credit within the terms outlined in Chapter IX.

The municipal banks can instruct the State Bank to grant short-term loans to residential-municipal organizations and enterprises for the seasonal purchase of supplies and so forth. These loans are granted from funds transferred for that purpose from the municipal banks to the subcorrespondence account and are handled like the short-term loans to contractors.

One of the most common types of credit granted by the State Bank on instructions from the head office of Prombank is long-term credit to rayon and oblast industrial enterprises for expansion and organization of the production of consumer goods, food, construction materials and fuel (according to the procedure described in Chapter XV).

State Bank carries out subsequent control over the specified utilization of such loans, checks on the fulfillment of the construction plan and the organization of production within the scheduled time limit and in accordance with the approved designs and estimates dossier, and so forth.

The State Bank offices are expected to investigate the credited organizations and in case of mismanagement take their own remedial measures without having to inform the appropriate branch of Prombank.

On instructions from the municipal banks, the State Bank grants

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loans for individual home building and for capital repairs of individual homes. Such loans are granted and controlled in the manner described in Chapter XVIII. All loans must be formulated in the form of payment obligations made out by the borrowers in the name of the municipal banks.

Long-term loans for capital investments or for working capital are granted on instructions from Torgbank from the subcorrespondence accounts against payment obligations drawn up in duplicate in the name of Torgbank.

The widest credit operations are handled by the State Bank on instructions of Sel'khozbank.

On instructions of Sel'khozbank, the State Bank offices grant short-term loans to the state farms of the Ministries of Agriculture, Meat and Dairy Industry and Food Industry, issue loans to individuals for the building and reconstruction of homes and the purchase of livestock, and also grant long-term loans to collective farms.

The short-term crediting of state farms is handled by State Bank in the same manner as by Sel'khozbank. Loans are granted to cover the time gaps in the utilization of amortization deductions, outlays for the formation of herds and preparation for the coming year.

Home loans to individuals in rural areas are granted by the State Bank on instructions from Sel'khozbank in the same manner as in the case of home loans to industrial workers on instructions from the local municipal banks.

The State Bank offices are responsible for operational control over the specified utilization of home loans. In case of credit infractions, the State Bank may stop credit and recover previous parts of the loan at 12 percent annual interest.

The State Bank grants long-term loans to collective farms for the same undertakings and according to the same procedure as Sel'khozbank itself. In addition to approving and issuing the loans, the State Bank offices also draw up the long-term credit plans for the collective farms in their areas.

The State Bank grants loans for the construction of hydroelectric stations, melioration and so forth involving more than one farm on the basis of the agreement concluded among the participating farms.

In some cases, the bank grants short-term loans to collective farms to bridge the seasonal gaps between the accumulation of their own funds and their capital outlays. Such short-term loans are granted within the total limits of the long-term loans.

The State Bank offices carry out systematic and subsequent control over the specified utilization of loans granted to farms. If the loans are found to have been misused, further credit is withheld and is not resumed until the infractions have been eliminated. The farm management

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and the rayon Soviet must be given ten days' notice of any impending withholding of credit. Loans are controlled on the basis of the quarterly reports submitted by the collective farms and through on-the-spot investigations.

All operations carried out on instructions of Sel'khozbank are recorded in a special section (XIV) of the State Bank balance sheet.

5. The Accumulation of Funds of Cooperatives and of the Money Part of the Indivisible Funds of Collective Farms.

Capital investments of cooperative organizations are financed almost entirely in the form of long-term loans from the contributions of the cooperative systems themselves.

The long-term credit funds of the cooperative systems are made up of the contributions of the lower cooperative organizations and their collection is the responsibility of the branches of Torgbank. However, the State Bank plays a major role in the collection.

Funds are transferred to the long-term credit funds by the State Bank offices on noncancelable payment orders of the payers themselves or on payment instructions of their superior agencies.

The State Bank offices accumulate the money part of the indivisible fund of collective farms on the same basis as the branches of Sel'khozbank.

6. State Bank Reports to the Investment Banks on the Fulfillment of Instructions.

After having fulfilled the instructions of the investment banks, the State Bank offices must submit bookkeeping and statistical reports to the banks.

The branches of Prombank, Torgbank and the municipal banks are expected to receive from the State Bank offices extracts from their subcorrespondence accounts. The branches of Prombank, moreover, must receive: monthly telegraphic reports on the changes in the accounts and on the balance at the end of the month; a monthly report (Form No. 010) on the utilization of the wage fund for above-limit projects, based on the monthly wage payment certificate submitted by the projects themselves.

The branches of Sel'khozbank are expected to receive a monthly report on Section XIV of the balance sheet (which includes all operations transacted on instruction from Sel'khozbank) and a statistical report by types of operations.

The State Bank offices are responsible for improper issuance of funds from the accounts of the investment banks.

7. Correspondence Relationships Among the Investment Banks.

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On the basis of existing agreement, the branches of the investment banks may handle the operations of one another. Such an agreement exists in particular between Prombank and Tsekombank.

Unlike the State Bank offices, the investment banks that handle the affairs of other banks take care not only for the clearing operations and preliminary control, but on instruction also carry out analysis of reports and on-the-spot investigations of projects and construction organizations.

The bank that ordered the financing or crediting of any particular project or organization is expected to send to the executive bank the appropriate extracts from the itemized list (capital investment plan) and the financing plan.

All funds allocated according to the financing plan either from the budget or from the industry's centralized contributions are transferred to the executive bank.

The accumulation of local investment contributions is the responsibility of the bank that orders the financing.

The branches of the investment banks are responsible for the improper issuance of funds in the course of operations handled for another bank.

The bank that issues the financing instructions has the right to investigate the work of the executive bank insofar as it concerns its own operations.

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2. The Procedure of Planning Outlays for Capital Repairs
3. The Procedure of Financing Outlays for Capital Repairs
4. Bank Control of the Financing of Outlays for Capital Repairs

Chapter XV. The Long-Term Crediting of the Capital Investments of State Enterprises

1. The Long-Term Crediting of Rayon and Oblast Industries
2. The Long-Term Crediting of State Farms
3. Long-Term Crediting of Local Soviets for Housing Repairs
4. Long-Term Crediting of the Construction of Small-Capacity Hydroelectric Stations

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1. The role of Agricultural Credit in the Organizational and Economic Strengthening of Collective Farms
2. Basic Principles of the Long-Term Productive Crediting of Collective Farms
3. Planning of the Long-Term Productive Crediting of Collective Farms
4. Farm Crediting for Animal Husbandry
5. Farm Crediting for Electrification
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7. Credit for Crop Raising, Fertilizer Purchases and Other Needs
8. Sel'khozbank Control of Loan Payments
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1. Long-Term Crediting of the Capital Investments of Producer and Veteran Cooperatives
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Chapter XIX. The Financial and Credit Plans of the Long-Term Investment Banks

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Chapter XX. Organization of the Control Work of the Investment Banks. Financial Incentives and Sanctions

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Chapter XXI. Relationships Between the Long-Term Investment Banks and the State Bank. Mutual Services Among the Long-Term Investment Banks

1. Distribution of Clearing and Control Functions between the State Bank and the Long-Term Investment Banks
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3. State Bank Control Procedures and Forms Used in Nonrepayable Financing on Instructions of the Investment Banks
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